

TOWN OF LOS GATOS
CALIFORNIA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2004

PREPARED BY THE
OFFICE OF THE TOWN MANAGER

TOWN HISTORY

The name Los Gatos comes from "El Rancho Rinconada de Los Gatos," a ranch established in 1839 by a Mexican land grant and so named because of the large number of mountain lions in the area. In 1854, James Alexander Forbes purchased some of this land and built a flour mill. In 1860, the first hotel was opened to provide a stage stop on the toll road which had been built between San Jose and Santa Cruz.

Wheat production gave way to orchards, and rapid growth ensued when the railroad reached Los Gatos in 1878. The residential subdivisions of Broadway, Bayview, Fairview, and Almond Grove were built in the 1880s. By 1887, the population had grown to 1,500 and Los Gatos voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people producing residential and commercial development. Highway 17 was constructed through the center of Town. Growth leveled off in the early '70s, leaving Los Gatos with its small-town atmosphere and pedestrian-oriented downtown.

Because of its distance from other centers of population, Los Gatos developed as a complete community including residential, business and industrial elements. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community. From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population of 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

Los Gatos' boundaries encompass a wide variety of terrain, ranging from level land to steep and densely wooded hillsides. The sharp visual contrasts among these features and charming architecture create the picturesque setting of the Town. In the midst of an increasingly uniform urban complex, this setting has attracted people with a preference for the Town's distinctive, high quality natural and urban environment.

The slow growth of the Town over an extended number of years has left the Town with a heritage of older, established residential areas and a downtown with many historic buildings representing the various eras in the Town's history. Protection of these historic resources which are a major part of the Town's character is an important community goal. Two museums, Tait Avenue and Forbes Mill, help preserve the Town's valued history.

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

CIVIC CENTER
110 E. MAIN STREET

P.O. Box 949
LOS GATOS, CA 95031

December 17, 2004

Honorable Mayor and Town Council,

I am pleased to submit the Town's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2004. This report was prepared by management and the Finance staff in the Town Manager's Department, which assumes responsibility for the accuracy of the data and the completeness and fairness of the presentation and all disclosures. The information in this report is intended to present the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2004, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

This report was prepared as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34). This new GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

This Comprehensive Annual Financial Report is organized into three sections:

- 1) The Introductory Section includes the table of contents, letter of transmittal, listing of elected officials and Town administrative personnel, and organization chart delineating organizational structure.
- 2) The Financial Section includes the independent auditors' opinion, management's discussion and analysis, the basic financial statements, notes to the financial statements, combining statements of non-major funds, and required supplemental information.
- 3) The Statistical Section includes both financial and non-financial data about the Town.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of C.G. Uhlenberg LLP, the Town's independent certified public accountants.

This Comprehensive Annual Financial Report will be submitted to the Government Finance Officers Association and the California Society of Municipal Finance Officers for consideration for their Awards for Excellence in financial reporting. These awards are granted only to entities whose reports meet the highest standards of municipal financial reporting.



THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, which was incorporated under the laws of California in 1887. Located in the foothills and level terrain of the Santa Clara Valley, in an area referred to nationally as "Silicon Valley". From the first 100-acre town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles, with a population 11,750. Today Los Gatos covers approximately 14 square miles and has a population of 28,928 persons. This relatively slow growth over the first 80 years resulted in a human scale community with narrow streets and small buildings. Preserving Los Gatos as a complete and well-balanced community has been and remains a prominent goal for the community.

Five council members who are elected at large for staggered four-year terms govern the Town. The Town Clerk and Town Treasurer are also elected for four-year terms. The Mayor and Vice-Mayor are elected by the Council from their own ranks and serve for one-year terms. The Town Manager and Town Attorney are hired directly by the Council. The Town Manager oversees traditional municipal services such as Public Safety, Parks & Public Works, Community Development, Community Services and a Public Library.

This report includes all funds of the Town of Los Gatos. It also includes the financial activities of the Los Gatos Redevelopment Agency which is governed by the Los Gatos Town Council who sit as the board members for the Agency. Financial information for the Los Gatos Redevelopment Agency is aggregated and merged with that of the Town in the financial statements in accordance with generally accepted accounting principles.

ECONOMIC CONDITIONS AND OUTLOOK

Consistent with other Silicon Valley communities, the Town of Los Gatos continued to experience a economic downturn in FY 2003/04. In recent years the Town has incurred the economic effects of slowing business travel and tourism. Furthering the severity is both the State's budget crisis and its resulting impacts to local governments with ERAF takes and funding reductions, and the historically low interest rates which continue to significantly impact the Town's interest earnings.

Since fiscal year 2001/2002 the Town has implemented a number of strategies to keep operating revenues in balance with ongoing operating expenditures. These steps included selected hiring freezes, strategic expenditure slowdowns, and departmental cost saving efficiencies, among other strategies that have allowed the Town to remain fiscally balanced despite the recessionary downturn in local revenues and the State's budget crisis.

The Town relies heavily on sales tax revenues to support general fund operations, comprising approximately 30% of general fund revenues in FY 2003/2004. The 2003/04 fiscal year sales tax receipts of \$6.91 million were just slightly under the prior year's collections of \$6.93 million. Other economically sensitive revenues such as Transient Occupancy Taxes and Business License Taxes have trended lower from previous highs experienced in these revenue sources in recent years, however strengthened compliance efforts are providing some revenue growth. Despite the negative effects of the economy, the Town continues to actively engage its economic vitality program as an integral part of the Town's overall strategic initiative to ensure fiscal health for the Town. Fortunately, property tax collections continued a

moderate growth trend in spite of the events in the local economy, evidence that the Town is still viewed by potential home buyers as a highly desirable community causing real estate values to continue to remain strong despite local economic downturns.

The Town continues to deal with and anticipate additional challenges created through the State of California's budget crisis. Since 1991, the State has diverted or taken portions of Town revenues such as property taxes to balance its fiscal equation. The Town conservatively planned for another State "take" in the FY 2003/04 budget as it became apparent that the State would again face multi-billion dollar deficits. This action proved very prudent with the loss of a portion of the State "back-fill" of Motor Vehicle License Fees and reductions in State funded reimbursements. Because the Town reacted pro-actively to these changes with strategic budgetary changes and expenditure reductions on a timely basis, and despite the revenue losses sustained, the Town's high level of services have been maintained, and the General Fund continued in strong fiscal health through FY 2003/04.

Although State revenue sources continue to be in jeopardy, the passing of Proposition 1A in the Fall of 2004 provides some assurance of revenue stability for the future. This measure amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. With its passage, the State could not reduce local sales tax rates or alter the method of allocation. It prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year under the laws in effect as of November 3, 2004, and increases legislative approvals for altering how property tax revenues are shared among local governments. The measure also prohibits the State from reducing the property tax revenues provided to cities and counties, and requires the State to provide local governments with equal replacement revenues if the VLF rate is reduced below its current level.

While the Town continues to manage in an environment of great uncertainty, Town staff continues to work diligently through its outreach efforts to the community, the League of California Cities, and local legislators to prevent any future revenue losses.

MAJOR INITIATIVES

Despite the ongoing economic downturn, FY 2003/04 was a year of high activity. Town efforts continued to focus on economic vitality issues to address business retention and expansion, and ongoing outreach to the local business community. In conjunction with these efforts, the Downtown Parking Plan was implemented, providing better signage and more lots for downtown visitors. Public communication and resident community outreach efforts were also significant in FY 2003/04. The Town's Annual Report was integrated into the Town's quarterly newsletter, and mailed to all residents to increase community knowledge, interest, and participation. The Town also instituted a new 'Town Hall in the Neighborhood' council meeting format to reach out to the outlying Los Gatos communities. Council and staff attended three very successful neighborhood meetings throughout the Town to encourage community participation in the Town's government, and to hear residents speak on issues that affected their individual neighborhoods.

The Town continued to make large investments in the Town's streets and curbs and gutter infrastructure. While countering the effects of delayed infrastructure and facility repair and maintenance, Town projects

prioritized for health and safety improvements, including ADA upgrades, sidewalk installations, automatic doors for the Library, and Civic Center building repairs.

Additional infrastructure improvements were scheduled in accordance with the Town's approved FY 2003/08 Capital Improvement Plan, and continue into the following years. All of these improvements are funded either through debt issuance in the case of the downtown improvements, with grant assistance, or via revenues accumulated from prior years budget savings and excess revenues that Town Council policy strategically allocated for this purpose.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The effectiveness of internal control is considered in the development and evaluation of the Town's accounting system. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding:

- 1) safeguarding of assets against loss from unauthorized loss or disposition,
- 2) accuracy and reliability of accounting data,
- 3) adherence to managerial policy.

The concept of reasonable assurance recognizes that the cost of internal control should not outweigh its benefits, and that management must make estimates and judgments in evaluating these costs and benefits.

All governmental fund types use the modified accrual basis of accounting. This means that revenues are recorded when measurable and available rather than when received. Measurable means the amount can be determined, and available means the cash is received within forty-five days after the end of the fiscal year. Expenditures are recorded when the liability is incurred, rather than when paid. An exception to this rule is principal and interest on general long-term debt, which is not recognized by debt service funds until it is due.

Proprietary (internal service) funds are accounted for using the accrual basis of accounting, similar to that used by corporations. Proprietary fund revenues are recognized when they are earned rather than when the cash is received, even if the cash is not available and proprietary fund expenses are recognized when they are incurred.

With the implementation of GASB 34, the Town now prepares its Basic Financial Statements on the accrual basis.

Internal accounting procedures have been developed to provide reasonable assurance regarding the safeguarding of assets and the reliability of financial records for preparing financial statements and maintaining asset accountability.

An annual operating budget and five-year capital improvement plan is adopted by the Town Council on a basis consistent with generally accepted accounting principles. All budget adjustments and transfers

Page 5
Mayor and Town Council
December 17, 2004

between funds must be approved by the Town Council by resolution during the fiscal year. The Town Manager is authorized to transfer unencumbered appropriations within a budget category, within a fund. Appropriations are valid for each fiscal year and lapse at year-end.

AWARDS

The Town's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This prestigious award recognizes the report's conformance with strict accounting and reporting standards established by the Government Accounting Standards Board and government finance organizations. This award is annual in nature and valid for one year only. This year's report will be submitted for award consideration by this organization, as we believe it continues to meet these standards.

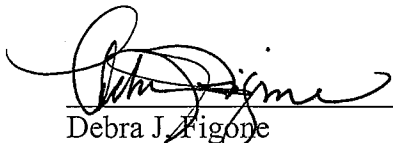
INDEPENDENT AUDIT

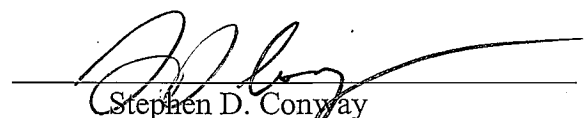
State law requires an annual audit of the Town's accounts by independent certified public accountants. The accounting firm of C.G. Uhlenberg LLP performs this function for the Town of Los Gatos, and their report is included in the financial section of the CAFR.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Mary Furey, Accounting Manager, Linda Debar, Accountant, and Glenda Cracknell, Senior Accounting Technician, for their efforts in preparing this report.

Respectfully submitted,


Debra J. Figone
Town Manager


Stephen D. Conway
Director of Finance & Administrative Services

DJF:SDC:pd
N:\FINANCE\CAFR\FY 2003-04\2003-04 Transmittal Letter .wpd

**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2004**

TOWN COUNCIL

Mayor
Vice Mayor
Councilmember
Councilmember
Councilmember

Steve Glickman
Mike Wasserman
Sandy Decker
Diane McNutt
Joe Pirzynski

COUNCIL APPOINTEES

Town Manager
Town Attorney

Debra Figone
Orry Korb

ELECTED OFFICIALS

Town Clerk
Town Treasurer

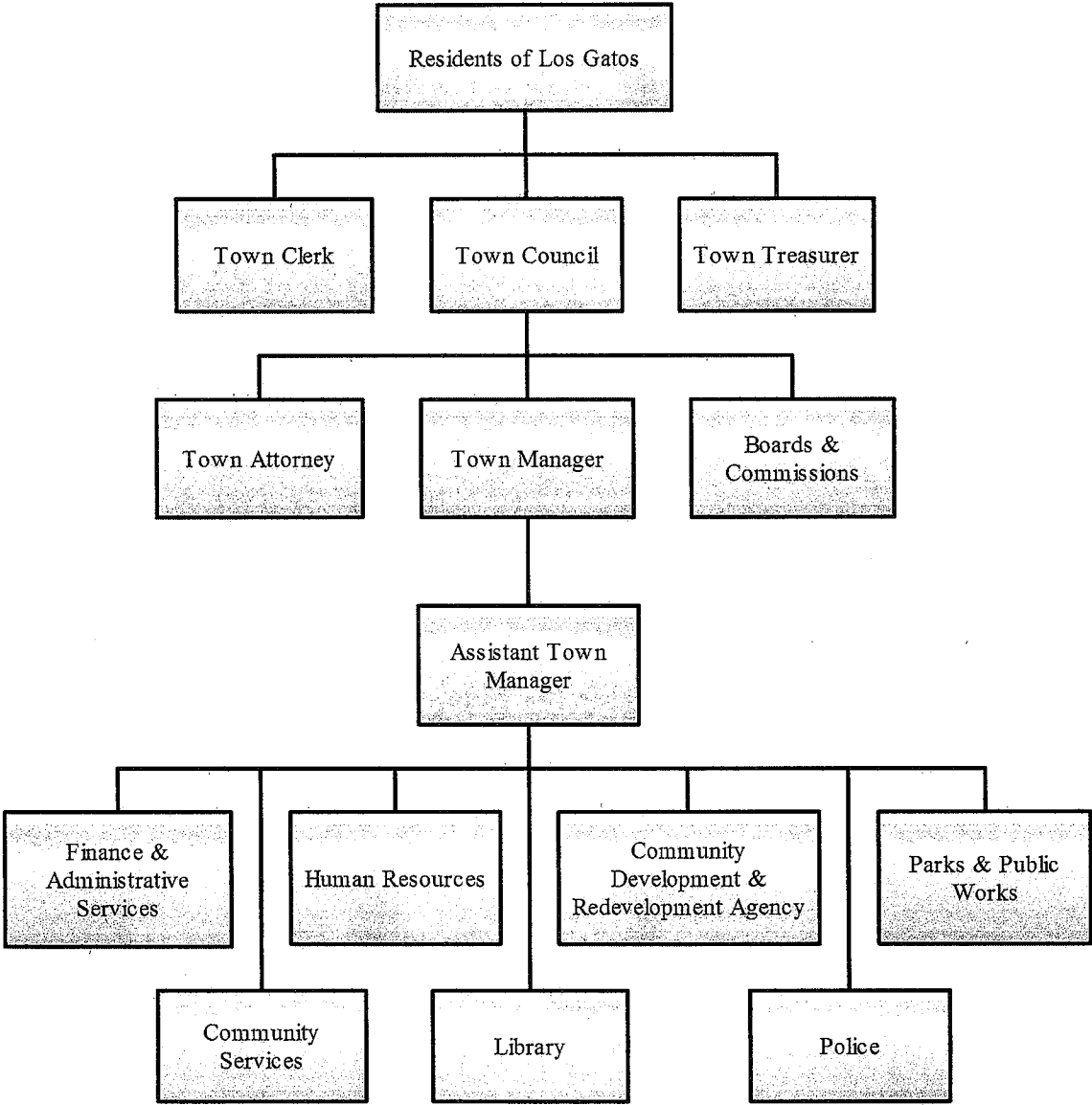
Marian V. Cosgrove
Linda Lubeck

APPOINTED OFFICIALS

Assistant Town Manager
Chief of Police
Community Services Director
Finance & Administrative Services Director
Library Director
Parks and Public Works Director
Community Development Director
Human Resources Director

Pamela Jacobs
Scott Seaman
Regina Falkner
Stephen D. Conway
Peggy Conaway
John Curtis
Warren "Bud" Lortz
Gary Rogers

**TOWN OF LOS GATOS
ORGANIZATION CHART**



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Los Gatos,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ROBERT E. BARSANTI, C.P.A. (RETIRED) PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of Town Council
Town of Los Gatos, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons listed as a part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 11, 2004 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of



Inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and accordingly, we do not express an opinion on this information.

C. B. Mhlentberg CPA

November 11, 2004
Redwood City, California

Management's Discussion and Analysis

**TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

Our discussion and analysis of the Town of Los Gatos financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2004. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- Town assets exceeded its liabilities at the close of the fiscal year 2003/04 by \$79,188,533 (net assets). Of this amount, \$35,816,354 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's net assets increased by \$592,051 during the fiscal year. This increase is mostly due to increases in net assets in the Town's Redevelopment Agency's Debt Service and Low and Moderate Housing funds. These funds experienced growth in net assets resulting from tax increment revenues exceeding expenditures for the current year.
- At the end of the fiscal year 2003/04, unreserved fund balance for the General Fund was \$10,844,144 approximating 45 percent of General Fund expenditures for fiscal year 2003/04.
- The Town and Redevelopment Agency continued its efforts in addressing the critical infrastructure needs of the Town. Approximately \$5.7 in Town infrastructure improvements were made in the year, \$4.1 million of that amount was invested in the Town's streets and downtown streetscapes, adding enhancements to the downtown and bringing the Town's overall payment condition into a substantially higher overall rating than in past years.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Town and its component units using the integrated approach as prescribed by GASB Statement No. 34.

Government-wide financial statements: The government-wide financial statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguished functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services, debt service, redevelopment, and general government. The Town has no business-type activities.

The government-wide financial statements include not only the Town itself (known as the primary government), but also a legally separate Town of Los Gatos Redevelopment Agency (the Agency) for

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

which the Town is financially accountable. Financial information for this blended component unit is reported as if it were part of the primary government because its sole purpose is to provide redevelopment in the Town. Additional information on this legally separate entity can be found in Note 1(A) in the notes to basic financial statements.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town are segregated into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: The Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's operations. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds: The Town maintains one type of proprietary fund: internal service funds. Proprietary funds are reported using the accrual basis of accounting. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and computer equipment, and for its risk management activities. The Internal Service funds have been included within governmental activities in the government-wide financial statements.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs.

Notes to basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 41-68 of this report.

**TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$79.2 million at the end of the current fiscal year.

Town of Los Gatos's Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 58,044,966	\$ 60,675,192
Capital assets	50,547,211	\$ 46,533,923
Total assets	<u>108,592,177</u>	<u>107,209,115</u>
Current liabilities	17,273,644	\$ 15,908,479
Long-term liabilities outstanding	12,130,000	\$ 12,500,000
Total liabilities	<u>29,403,644</u>	<u>28,408,479</u>
Net assets:		
Investment in capital assets, net of related debt	38,417,211	\$ 33,799,130
Restricted	4,954,968	\$ 24,016,830
Unrestricted	35,816,354	\$ 20,984,676
Total net assets	<u>\$ 79,188,533</u>	<u>\$ 78,800,636</u>

Capital assets represent approximately 48.3% of the Town's net assets consist of investments made by the Town in permanent or long-lived assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and customers; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the current year, investment in capital assets, net of related debt increased by \$4.6 million in the governmental activities in connection with ongoing capital projects, the majority of which was invested in Town infrastructure, including more than \$4.1 million of Town investment in its streets and roads and downtown streetscapes.

An additional portion of the Town's net assets (6.3 percent) represents resources that are subject to external restrictions on how they may be used. The restricted net asset balance increase for the fiscal year was due primarily to remaining cash balances from the 2002 issuance of \$10.7 million of Certificates of Participation to be used for eligible redevelopment related capital improvements.

The balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens, customers, and creditors. The Town's unrestricted net assets represent 45.2 percent, of the Town's net assets at year end.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

Town of Los Gatos
Statement of Activities
For the Year Ended June 30, 2004

	Governmental Activities	
	2004	2003
Revenues:		
Program revenues:		
Charges for services	\$ 7,226,220	\$ 6,811,907
Operating grants and contributions	1,399,185	1,662,376
Capital grants and contributions	1,166,929	881,758
General revenues:		
Property taxes	9,645,339	9,051,608
Sales taxes	6,914,526	6,928,817
Other taxes	1,823,019	1,765,590
Motor Vehicle In Lieu	1,298,455	1,722,801
Investment earnings	(92,621)	1,712,265
Proceeds from sale of property	-	262,568
Other	25,415	22,356
Total revenues	<u>29,406,467</u>	<u>30,822,046</u>
Expenses:		
Police Department	9,980,927	10,393,844
Parks and Public Works	6,179,328	6,345,756
General government	4,246,133	4,148,075
Community Development	2,229,686	2,277,109
Library Services	1,807,662	1,779,697
Redevelopment	1,828,924	1,563,166
Interest and fees	662,867	1,139,358
Community Services	1,046,351	973,554
Sanitation	832,538	833,096
Total expenses	<u>28,814,416</u>	<u>29,453,655</u>
Increase in net assets	<u>592,051</u>	<u>1,368,391</u>
Net assets, beginning	78,800,636	77,432,245
Prior period adjustments	(204,154)	-
Net assets, ending	<u>\$ 79,188,533</u>	<u>\$ 78,800,636</u>

Governmental activities. Governmental activities for the year increased the Town's net assets by \$592,051. Key elements of the increase in net assets is as follows:

- Property tax revenues collected for the Town and the Redevelopment Agency accounted for 33.0 percent of Town General Revenues. Property taxes increased for the Town and Redevelopment Agency an average of 6.5 percent from the prior year collections due to the increase in ad valorem property tax. The increase resulted from overall growth in assessed value in the Town, net of homeowner exemption value, reflecting the continued desirability of the Town in a very active real estate market in Santa Clara County.
- Sales tax revenue accounted for 24 percent of Town General Revenues at \$6.9 million for the year, essentially unchanged from the amounts received the prior year. This flat revenue growth from the

**TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

prior year reflects the effects of the continuing economic slowdown experienced locally and regionally as well.

- Other taxes and motor vehicle in lieu taxes accounted for 11 percent of General Revenues, decreasing 5 percent from the prior year's level of 16 percent. The decrease is largely attributable to one quarter of the fiscal year's motor vehicle license fees state "backfill" revenue which was withheld from local governments in California FY 2003/04 by the State of California.
- Investment Earnings were negative (\$92,621) for the fiscal year, reflecting the adjustment of interest earnings by a "mark to market" adjustment required under Governmental Accounting Standards Board Statement # 31, which requires the Town to adjust fixed income securities from cost to current market value at year-end, the mark down is taken by reducing interest earned in the current year. The Town's adopted investment policy is a "hold to maturity" portfolio, no investments were sold at below cost during the fiscal year, and no loss of interest earnings was actually sustained by the Town.

Total expenditures decreased approximately \$640,000 from the prior year, largely as a result of Town-wide expenditure reductions made in fiscal year 2003/04 to align operating revenues with operating expenditures. These reductions were accomplished despite scheduled increases in operating expenses in accordance with previously bargained labor contracts, normal inflationary cost escalation, and continued growth in the demand for essential Town services.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year 2003/04, the Town's governmental funds reported combined ending fund balances of \$32,214,258 a decrease of \$3,924,946 in comparison with the prior year. The majority of the decrease in governmental fund balances resulted from the continued investment of capital project fund balances into Town infrastructure improvements. Approximately 61.7 percent of the total amount of governmental fund balances (\$19,846,293) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) to liquidate contracts and purchase orders of the prior period (\$385,615); 2) to pay debt service (\$439,586); 3) to provide for loans/advances due to the Town (\$1,134,250); 4) to provide for appropriated capital projects (\$6,266,890); 5) to provide for low and moderate housing (\$3,356,099); and 6) to provide for dedicated repair and maintenance in lighting and landscape districts (\$81,727).

The General Fund is the chief operating fund of the Town. It accounts for all financial resources except those required to be accounted for in another fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$10,844,144, while total fund balances were \$12,396,660. General fund expenditures including transfers out decreased \$184,544 from fiscal year 2002/03. The decrease in expenditures was the result of a combination of cost containment measures implemented by the Town, such as Town-wide expenditure reductions, selected hiring freezes, operating budget reductions and other measures taken in response to the continued economic slowdown and its impact to Town operating revenues.

The special revenue funds are used to account for specific revenue sources for which expenditures are restricted by law or regulation to finance particular functions or activities of the Town. During the current

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

year, special revenue fund revenues remained stable with prior years, experiencing a decrease of 1.1 percent (\$12,957) from levels received in the prior year. Operating expenditures also increased 11.1 percent from the prior year (\$143,375). The increase in expenditures is mostly as a result of increases in community service expenditures associated with the Town's Community Development Block Grant Program's efforts in affordable housing and home rehabilitation. Another portion of the increase was due to a 10.4 percent (\$15,340) increase in solid waste program expenditures for the year reflecting higher solid waste program efforts for the year. At the end of the fiscal year 2003/04, total fund balances for special revenue funds were \$1,585,853 with unreserved fund balance of \$1,125,328 and reserved balances of \$460,525.

The debt service fund has a total fund balance of \$4,144,430, all of which is reserved or designated for the payment of debt service for Town and redevelopment activities. The net fund balance increased in the debt service fund by \$593,857 primarily due to redevelopment tax increments exceeding agency debt service expenditures during the year.

The capital projects fund is used to account for resources used for the acquisition or construction of major capital projects within the governmental fund types. Total Town capital project fund balances at year end were \$14,087,314, a decrease of \$4,070,904 from the prior year. The decrease resulted from a combination of two primary factors, the first is that the Town's Redevelopment capital projects fund decreased fund balances by \$2,002,861, reflecting the investment of some of the remaining 2002 COP bond proceeds on infrastructure improvements such as the Downtown Streetscape project, parking lots and alleys in the project area. The second factor is a decrease of \$2,068,043 of decrease in the Town's other capital project funds, the majority (\$2,119,731) of fund balance reduction occurred in the Town's General Fund Appropriate Reserves (GFAR) capital projects fund. The decrease in the Town's GFAR capital projects fund was due to the continuing implementation of the Town's aggressive capital improvement plan where significant expenditures were made to improve the Town's street and roads and other infrastructure. Total fund balances at year end were either reserved or designated for the payment of capital related expenditures in carrying out the Town's five-year capital improvement program.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Internal Service Funds: The Town has seven internal service funds, the Worker's Compensation, Self Insurance, Stores, Vehicle Maintenance, Building Maintenance, Management Information, and Equipment Replacement funds. Revenues to the funds are generated from fees charged to the Town's operating programs for services provided.

The Equipment Replacement Fund charges replacement costs and the Vehicle Maintenance Fund charges vehicle maintenance costs to all user departments based on equipment assignment and usage of equipment. Net operating income before transfers at year end for both funds was \$463,956 and \$98,219 respectively versus \$221,440 and \$25,902 in the prior year. The increase in operating income in the Equipment Replacement is attributable to delay in implementation where feasible and safe, of scheduled equipment replacements. Additionally, operating transfers out decreased from \$500,000 to \$400,000 in the current year to reflect management's decision to rebate excess certain internal service fund balances back to the General fund as set forth in the Town's adopted FY 2003/04 budget.

The Building Maintenance, Stores and Management Information funds charge premiums based on use and labor charges to provide Town-wide building maintenance, mail, office inventory and duplication charges, and management information services. Net operating income before transfers at year end for

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

these funds was \$257,848, \$23,501 and \$329,782 respectively versus \$108,631, \$1,436 and \$69,397 in the prior year. The increase in operating income in the Building Maintenance fund is due a combination of cost containments and re-scheduling of minor maintenance and repairs and to no major unanticipated building repairs due to storm damage experienced the prior year. Net income increased in the Management Information services fund from the prior year due mainly to a decrease in use of outside information technology vendors and reduced supply and equipment purchases made in comparison to the prior year.

The Worker's Compensation and Self Insurance Fund charge premiums based on exposure levels by department for liability, property, worker's compensation and self-insurance costs. Net operating income before transfers at year end these funds was (\$153,453) and (\$183,672) respectively versus \$3,965 and \$422,630 in the prior year. Operating income decreases for the year in both Self Insurance and Worker's Compensation fund reflects the increased experience of loss claims in the current year from the prior year in both the worker's compensation and the general liability arena. Operating transfers out for both funds decreased from \$300,000 in the prior year to \$250,000 in the current year to reflect management's decision to rebate excess fund balances at a declining rate over a period of years back to the General as proposed in the Town's adopted FY 2003/04 budget.

Government Funds Budgetary Highlights:

Comparing the FY 2003/04 original budget (or adopted) General Fund amount of \$25,019,748 the final budget amount of \$25,138,042 shows a net increase of \$118,294. Additions to the original budget included certain prior year (FY 2002/03) approved carry forwards of \$194,758 into FY 2003/04 and \$26,347 in net miscellaneous adjustments approved by Town Council throughout the fiscal year.

Original Budget	+ Approved Carry forwards	+ Prior Year Encumbrances	+ Misc. Adjustments & Mid-Year Adjustments	= Final Budget
\$25,019,748	\$91,947	\$-0-	\$26,347	\$25,138,042

The increase in General Fund appropriations occurred mainly to the following budget adjustments:

- The General Fund appropriated budget was increased \$91,947 to reflect the carry forward of appropriations for the Police Technology Grant project, funded by the State of California.
- Miscellaneous adjustments totaling \$26,347 of supplemental appropriations occurred in the period. Included in these increases were additions to legal and financial services for special services such as a user fee study and update and ongoing cable television negotiation legal work that occurred during the fiscal year.

Capital Assets

The Town's investment in capital assets for its governmental activity as of June 30, 2004, is recorded at \$50,547,211 (net of accumulated depreciation). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress and machinery and equipment. During FY 2003/04 the total increase in the Town's investment in capital assets for the current year was 8.62 percent for governmental activities.

TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

Major capital asset events during the current fiscal year include the following:

- \$4.7 million of continuing construction was accomplished on the Town's streets and street-related improvements, including substantial work performed downtown in the Downtown Streetscape Improvements project, also alleys and parking lots.
- The Town made substantial improvements to its information technology capabilities, including approximately \$134,000 for a Town-wide digital mapping system used by engineering and development staff, with potential for use by all departments including public safety. Approximately \$30,000 was invested in a new emergency generator for Town Service Yard providing for emergency use for parks and public work and public safety uses in case of loss of power.
- The Town added approximately \$260,000 in substantial replacement of hillside retaining walls in the public right of way, with more work scheduled in this category for future years.

Town of Los Gatos
Capital Assets (net of accumulated depreciation)

	Governmental Activities
Land	\$ 14,165,194
Construction in Progress	373,978
Buildings	5,231,429
Equipment	2,275,054
Infrastructure	28,501,556
	<u>\$ 50,547,211</u>

Additional information on the Town's capital assets can be found in note 5 of this financial report.

Debt Administration

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$12,130,000. The entire amount owed is comprised of debt backed by the Town's obligation to pay lease payments to the Town's Redevelopment Agency. The Town's long-term obligations outstanding as of June 30, 2004 consisted of the following:

Town of Los Gatos
Outstanding Debt June 30, 2004

	Governmental Activities
Certificates of Participation	\$ 12,130,000
Total Outstanding Debt	<u>12,130,000</u>

The Town's total obligations decrease by \$370,000 during the fiscal year. The decrease resulted from the scheduled principal payments made in the fiscal year for the 2002 Certificates of Participation and the 1992 Certificates of Participation.

The rating of the Town's certificates of participation series from Moody's ranges from Aaa to Aa2 and from Standard & Poor's from AAA to AA-. Additional information on the Town's long-term debt can be found in note 6 of this report.

**TOWN OF LOS GATOS, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

Economic Factors and Next Year's Budgets and Rates

A product of an ongoing examination of how the Town provides cost-effective services, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the Town budget for the fiscal year 2004/05 the Town Council and management considered the following in developing budget estimates:

- Town retailers continued to experience sluggish growth in sales in fiscal year 2003/04, reflecting the slow recovery from the local economic downturn experienced in recent years in most Santa Clara County cities in the area commonly known as "Silicon Valley". Sales tax estimates for FY 2004/05 were forecasted and budgeted by staff to remain static at the approximate \$6.9 million dollar level experienced in FY 2003/04. With sales tax representing approximately 30% of the Town's General Fund revenue, the slow recovery in local sales tax collections continues to impact the Town.
- General property tax collections representing approximately 22% of the Town's General Fund revenues reflect positive growth of 4%, despite the local economic downturn, strongly reflecting the Town's continued desirability, despite the loss of approximately 200,000 Silicon Valley jobs over the past two years, are expected to remain strong despite the local economy at an approximately 4-6 percent growth rate. The growth is largely attributable to the increase in assessed valuation that occurs upon the turnover of housing stock in the Town.
- Fiscal year 2004/05 budgeted property tax was reduced \$476,000 to reflect the Town's share of an additional approximate \$1.3 billion in State property tax takes used to fund the Educational Augmentation Reallocation Fund (ERAF III) in accordance with the terms of the historic two-year budget agreement made between the state legislature and cities, counties and special districts in the state. The agreement was approved as part of a compromise made by the state to bring forth an amendment to the state constitution preventing further state property tax revenue takes (Proposition 1A).
- Declining interest rates were experienced in FY 2003/04, with the Town's average annual interest rate declining from approximately 3.11 percent to 2.41 percent at June 30, 2004. The reduction in investment earnings was expected to continue in FY 2004/05 as some longer held higher interest bearing investments were scheduled to mature in the fiscal year. This factor was built into the adopted budget estimates for the upcoming year.
- Transient Occupancy taxes also experienced declines in the Town from higher levels seen in years past. The decline is due to the slow local economy and its effect on business travel and the continuing aftermath of the war on terror that has impacted the travel industry nationwide. Estimates for FY 2004/05 were established at no growth above the prior year at \$900,000.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors, with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Finance Department at 110 East Main Street, Los Gatos, California, 95030, or phone (408) 354-6828.

Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire financial activities and financial position of the Town. They are prepared on the same basis of accounting (accrual) used by most businesses, which means they include all the Town's assets and liabilities, as well as its revenues and expenses. The effect of the entire Town's transactions are accounted for, regardless of when cash changes hands, and all material internal transactions between funds have been eliminated.

The Statement of Net Assets report the Town's total assets and liabilities, including capital assets and long-term debt, and presents similar information to the old balance sheet format while focusing the reader on the composition of the Town's net assets (assets minus liabilities). The Statement of Net Assets summarizes the financial position of the Town's governmental activities in a single column.

The Town's governmental activities include the activities of the General Fund, Special Revenue Funds, Capital Projects Funds and Debt Service Funds. These funds are serviced by the Town's Internal Service Funds; therefore internal service activities are consolidated with governmental activities after eliminating inter-fund transactions and balances.

The Statement of Activities reports increases and decreases in the Town's net assets and is prepared on the full accrual basis of accounting, which means it includes all the Town's revenues and expenses regardless of when cash changed hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the Town's expenses before revenues and by program. Program revenues (revenues generated directly by specific programs) are deducted from program expenses to arrive at the net expense of each governmental program, which is offset by general revenues as listed before the change in net assets. From these components, the change in net assets is computed and reconciled to the Statement of Net Assets.

Both of these statements include the financial activities of the Town and the Redevelopment Agency of the Town of Los Gatos, which is a legally separate, but a component unit of the Town because it is controlled by the Town, which is financially accountable for its activities.

The Statement of Net Assets, Statement of Activities, fund financial statements and the notes to financial statements comprise the Basic Financial Statements of the Town. The term "Basic Financial Statements" replaces the term "General Purpose Financial Statements" which is no longer used.

TOWN OF LOS GATOS
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 50,863,027
Restricted cash and investments (Note 2)	4,205,245
Receivables:	
Accounts	1,027,878
Interest	102,305
Intergovernmental	745,371
Materials, supplies and deposits	23,765
Long term notes receivables (Note 3)	1,077,378
Capital Assets (Note 5):	
Nondepreciable	14,539,172
Depreciable, net of accumulated depreciation	<u>36,008,039</u>
Total Assets	<u><u>\$ 108,592,179</u></u>
LIABILITIES	
Accounts payable	\$ 1,188,152
Accrued payroll and benefits	4,476,214
Accrued interest payable	228,939
Pass through obligations	1,766,732
Deferred Revenue	3,701,613
Deposits	3,126,195
Claims payable (Note 11)	950,109
Long-term liabilities (Note 6):	
Due within one year	
Certificates of participation	385,000
Due in more than one year	
Compensated absences (Note 1)	1,835,692
Certificates of participation	<u>11,745,000</u>
Total Liabilities	<u><u>\$ 29,403,647</u></u>
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	\$ 38,417,211
Restricted for:	
Capital projects	3,152,120
Housing	3,356,099
Special revenue projects	1,014,997
Debt service	439,586
Redevelopment projects	<u>3,500,386</u>
Redevelopment projects	
Total Restricted Net Assets	<u><u>4,954,969</u></u>
Unrestricted	<u>35,816,353</u>
Total Net Assets	<u><u>\$ 79,188,533</u></u>

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
General government	\$ 4,246,133	\$ 1,959,401	\$ -	\$ -	\$ (2,286,732)
Police department	9,980,927	1,446,067	546,508	-	(7,988,352)
Parks and public works	6,179,328	472,366	706,621	1,166,929	(3,833,412)
Community development	2,229,686	2,025,305	-	-	(204,381)
Community services	1,046,351	347,970	124,920	-	(573,461)
Library services	1,807,662	72,013	12,981	-	(1,722,668)
Sanitation	832,538	903,097	8,155	-	78,714
Redevelopment	1,828,924	-	-	-	(1,828,924)
Interest and fees	662,867	-	-	-	(662,867)
Total Governmental Activities	\$ 28,814,415	\$ 7,226,219	\$ 1,399,185	\$ 1,166,929	(19,022,082)
General revenues:					
Taxes:					
Property taxes					9,645,339
Sales taxes					6,914,526
Other taxes					1,823,019
Motor vehicle in lieu					1,298,455
Investment earnings					(92,621)
Miscellaneous					25,415
Total general revenues					19,614,133
Change in Net Assets					592,051
Net Assets - Beginning					78,800,636
Restatement of Beginning Net Assets (Note 13)					(204,154)
Net Assets - Beginning as Restated					78,596,482
Net Assets - Ending					\$ 79,188,533

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS**

Fund Financial Statements:

The Fund Financial Statements only present major funds individually while nonmajor funds are combined in a single column. Major funds are generally defined as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns has been discontinued along with the use of the General Fixed Assets and General Long-Term Debt Account Groups.

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2004. Individual non-major funds can be found in the supplemental section.

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

**TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004**

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2)	\$ 18,863,782	\$ 7,014,718	\$ 6,460,719	\$ 460,053	\$ 6,941,510	\$ 39,740,782
Restricted cash and investments (Note 2)	-	-	439,586	3,311,156	417,945	4,168,687
Receivables:						
Accounts	433,711	-	-	-	546,830	980,541
Interest	92,466	-	9,839	-	-	102,305
Intergovernmental Receivable	468,016	-	34,018	-	246,337	748,371
Interfund Receivable	-	-	-	-	-	-
Long Term Notes Receivable (Note 3)	418,266	-	-	-	659,112	1,077,378
Advances to Other Funds (Note 4)	1,134,250	-	-	-	-	1,134,250
Total Assets	\$ 21,410,491	\$ 7,014,718	\$ 6,944,162	\$ 3,771,209	\$ 8,811,734	\$ 47,952,314
LIABILITIES						
Accounts Payable	\$ 514,129	\$ 127,825	\$ 48,750	\$ 268,837	\$ 99,646	\$ 1,059,187
Accrued payroll and benefits	4,437,793	-	-	1,986	15,863	4,455,642
Pass Through Obligations	-	-	1,766,732	-	-	1,766,732
Deferred revenue	865,647	2,808,184	-	-	452,153	4,125,984
Deposits	3,118,578	-	-	-	-	3,118,578
Advance from Other Funds (Note 4)	-	-	984,250	-	150,000	1,134,250
Compensated Absences (Note 1)	77,684	-	-	-	-	77,684
Total Liabilities	9,013,831	2,936,009	2,799,732	270,823	717,662	15,738,057
FUND BALANCE (Note 8)						
Reserved for:						
Encumbrances	-	-	-	385,615	-	385,615
Capital Outlay	-	-	-	3,114,771	3,152,120	6,266,891
Debt Service	-	-	439,586	-	-	439,586
Advances	1,134,250	-	-	-	-	1,134,250
Repair and Maintenance	-	-	-	-	81,727	81,727
Long Term Notes Receivable	418,266	-	-	-	659,112	1,077,378
Low & Moderate Housing	-	-	-	-	3,356,099	3,356,099
Unreserved, designated for:						
Civic Center Improvement	663,086	-	-	-	-	663,086
Solid waste management	-	-	-	-	319,109	319,109
Open Space	562,000	-	-	-	-	562,000
Animal Control	300,000	-	-	-	-	300,000
Parking	368,714	1,972,000	-	-	-	2,340,714
Manager's Contingency	100,000	-	-	-	-	100,000
Productivity Enhancements	100,000	-	-	-	-	100,000
Economic Uncertainty	3,678,001	-	-	-	-	3,678,001
Capital Projects	500,000	2,106,709	-	-	-	2,606,709
Carryover	115,000	-	-	-	-	115,000
Grant agreements	22,047	-	-	-	-	22,047
State budget agreement	952,000	-	-	-	-	952,000
Long-term compensated absences	1,758,008	-	-	-	-	1,758,008
Debt Service	-	-	3,704,844	-	-	3,704,844
Unreserved, undesignated in:						
General Fund	1,725,288	-	-	-	-	1,725,288
Special Revenue	-	-	-	-	525,905	525,905
Total Fund Balances	12,396,660	4,078,709	4,144,430	3,500,386	8,094,072	32,214,257
Total Liabilities and Fund Balance	\$ 21,410,491	\$ 7,014,718	\$ 6,944,162	\$ 3,771,209	\$ 8,811,734	\$ 47,952,314

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Fund Balance - Total Governmental Funds	\$ 32,214,257
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.	50,547,211
ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS	
Internal service funds are used by management to charge the cost of management of certain activities, such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Assets.	10,119,641
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
Revenues which are deferred on the fund statements because they are not currently available are included as revenue in the Statement of Activities	424,371
ACCRUAL OF INTEREST ON LONG TERM DEBT	
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the Governmental Funds.	(228,939)
LONG-TERM LIABILITIES	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	
Certificates of participation	\$ (12,130,000)
Compensated absences	(1,758,008)
	<u>(13,888,008)</u>
Net Assets - Governmental Activities	<u>\$ 79,188,533</u>

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004

	General	Appropriated Reserves	Certificates of Participation	Redevelopment Agency Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 5,207,381	\$ -	\$ -	\$ -	\$ 37,200	\$ 5,244,581
Property Tax Increments	-	-	4,586,871	-	-	4,586,871
Less: Educational Revenue Augmentation Fund	-	-	(209,975)	-	-	(209,975)
Sales Taxes	6,914,526	-	-	-	-	6,914,526
Other Taxes	1,773,951	138,845	-	-	169,438	2,082,234
Licenses & Permits	2,031,387	-	-	-	-	2,031,387
Intergovernmental	3,261,533	634,353	-	-	888,913	4,784,799
Charges for Services	2,526,197	7,000	-	-	703,253	3,236,450
Fines and forfeitures	751,532	-	-	-	-	751,532
Interest	221,523	-	31,291	93,216	119,402	465,432
Other	-	266,778	-	274	-	267,052
Total Revenues	22,688,030	1,046,976	4,408,188	93,490	1,918,206	30,154,890
EXPENDITURES						
Current:						
General Government	4,234,148	-	-	-	-	4,234,148
Public Safety	9,986,069	-	-	-	-	9,986,069
Parks and Public Works	4,582,022	-	-	-	43,503	4,625,525
Community Development	2,249,641	-	-	-	-	2,249,641
Community Services	928,944	-	-	-	336,352	1,265,296
Library Services	1,798,331	-	-	-	-	1,798,331
Sanitation and Other	-	-	-	-	846,809	846,809
Capital Outlay	51,348	3,179,876	-	2,800,516	879,665	6,911,405
Redevelopment	-	-	1,773,889	-	-	1,773,889
Debt service:						
Principal	-	-	370,000	-	-	370,000
Interest & Fees	-	-	661,702	-	7,019	668,721
Total Expenditures	23,830,503	3,179,876	2,805,591	2,800,516	2,113,348	34,729,834
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,142,473)	(2,132,900)	1,602,597	(2,707,026)	(195,142)	(4,574,944)
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	1,217,091	126,220	-	-	1,008,739	2,352,051
Transfers (out) (Note 4)	(273,770)	(113,052)	(1,008,739)	-	(306,491)	(1,702,052)
Other financing sources (Note 6)	-	-	930,177	-	-	930,177
Other financing (uses) (Note 6)	-	-	(930,177)	-	-	(930,177)
Total Other Financing Sources (Uses)	943,321	13,168	(1,008,739)	-	702,248	649,999
NET CHANGES IN FUND BALANCES	(199,152)	(2,119,732)	593,858	(2,707,026)	507,106	(3,924,946)
BEGINNING FUND BALANCES	12,595,812	6,198,441	3,550,572	6,207,412	7,586,966	36,139,203
ENDING FUND BALANCES	\$ 12,396,660	\$ 4,078,709	\$ 4,144,430	\$ 3,500,386	\$ 8,094,072	\$ 32,214,257

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Net change in Fund Balances - Total Governmental Funds	\$ (3,924,946)
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 6,115,546	
Current year depreciation	<u>(1,898,104)</u>	4,217,442

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Certificates of participation	370,000
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ACCRUAL OF NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue	(151,337)
Interest payable	5,853
Compensated absences	(137,516)

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

Change in Net Assets - Governmental Activities	<u><u>\$ 592,051</u></u>
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The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 5,338,006	\$ 5,338,006	\$ 5,207,381	\$ (130,625)
Sales Taxes	6,800,000	6,650,000	6,914,526	264,526
Other Taxes	1,807,400	1,737,400	1,773,951	36,551
Licenses & Permits	1,880,300	2,052,300	2,031,387	(20,913)
Intergovernmental	3,023,709	3,125,002	3,261,533	136,531
Charges for Services	2,370,536	2,310,186	2,526,197	216,011
Fines and forfeitures	789,500	766,400	751,532	(14,868)
Interest	1,444,700	1,307,600	221,523	(1,086,077)
Total Revenues	23,454,151	23,286,894	22,688,030	(598,864)
EXPENDITURES				
Current:				
General Government:				
Town Council	143,700	143,700	135,973	7,727
Town Treasurer	56,560	56,560	76,315	(19,755)
Town Clerk	363,160	363,160	331,015	32,145
Town Attorney	230,060	230,060	220,129	9,931
Town Manager	1,902,240	1,911,740	1,826,900	84,840
Non-Departmental	2,328,508	2,197,221	1,917,585	279,636
Total General Government	5,024,228	4,902,441	4,507,917	394,524
Public Safety	9,917,290	10,050,416	9,986,069	64,347
Community Development	2,443,350	2,455,768	2,249,641	206,127
Parks & Public Works	4,884,565	4,916,853	4,582,022	334,831
Community Services	957,550	978,263	928,944	49,319
Library Services	1,775,265	1,780,915	1,798,331	(17,416)
Capital Outlay	17,500	53,386	51,349	2,037
Total Expenditures	25,019,748	25,138,042	24,104,273	1,033,769
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,565,597)	(1,851,148)	(1,416,243)	(1,632,633)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,168,400	1,168,400	1,217,091	48,691
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	1,168,400	1,168,400	1,217,091	48,691
NET CHANGES IN FUND BALANCES	\$ (397,197)	\$ (682,748)	(199,152)	\$ (1,583,942)
FUND BALANCE, BEGINNING			12,595,812	
FUND BALANCE, ENDING			\$ 12,396,660	

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS

Internal service funds account for Town operations financed and operated in a manner similar to a private business enterprise. The intent of the Town is that the cost of providing goods and services to other Town funds be financed through user charges to those funds.

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities Internal Service Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and investments available for operations (Note 2)	\$ 11,122,244
Restricted cash and cash equivalents	36,558
Accounts Receivable	47,337
Materials, supplies, and deposits	<u>23,765</u>
Total current assets	<u>11,229,905</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation (Note 5)	<u>50,669</u>
Total noncurrent assets	<u>50,669</u>
Total Assets	<u><u>\$ 11,280,573</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 131,965
Accrued payroll and benefits	20,573
Deposits	<u>7,617</u>
Total current liabilities	<u>160,155</u>
Noncurrent liabilities:	
Claims payable (Note 10)	<u>950,109</u>
Total noncurrent liabilities	<u>950,109</u>
Total Liabilities	<u><u>\$ 1,110,264</u></u>
NET ASSETS (Note 8)	
Invested in capital assets, net of related debt	\$ 50,669
Unrestricted	<u>10,119,641</u>
Total Net Assets	<u><u>\$ 10,170,310</u></u>

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 4,089,530
Refunds	30,427
Other	60,812
Total Operating Revenues	4,180,770
OPERATING EXPENSES	
Salaries and related expenses	712,070
Insurance expenses	1,300,932
Depreciation	26,370
Services and Supplies	1,305,214
Total Operating Expenses	3,344,587
Operating Income	836,183
Transfers (out) (Note 4)	(650,000)
Change in Net Assets	186,183
BEGINNING NET ASSETS	9,984,127
ENDING NET ASSETS	\$ 10,170,310

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,136,859
Payments to suppliers	(1,322,150)
Payments to employees	(707,416)
Claims paid	(965,190)
Cash Flows From Operating Activities	<u>1,142,103</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers (out)	<u>(650,000)</u>
Cash Flows from Noncapital Financing Activities	<u>(650,000)</u>
Net Cash Flows	492,103
Cash and investments at beginning of period	<u>10,666,700</u>
Cash and investments at end of period	<u><u>\$ 11,158,803</u></u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	836,181
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation	26,371
Change in assets and liabilities:	
Receivables, net	(52,445)
Other assets	-
Accounts payable and other accrued expenses	(10,823)
Other accrued expenses	<u>342,819</u>
Cash Flows From Operating Activities	<u><u>\$ 1,142,103</u></u>

The notes to the financial statements are an integral part of this statement

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FIDUCIARY FUNDS

Trust funds are used to account for assets held by the Town as a trustee agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004

	PRIVATE PURPOSE TRUST	AGENCY FUND
	Library	Parking Improvement District #88
ASSETS		
Cash and investments (Note 2)	\$ 250,654	\$ 72,781
Restricted cash and investments (Note 2)	-	228,521
Intergovernmental receivable	-	881,409
Total Assets	<u>250,654</u>	<u>\$ 1,182,711</u>
LIABILITIES		
Accounts payable	1,278	\$ -
Due to other governments	-	1,182,711
Total Liabilities	<u>1,278</u>	<u>\$ 1,182,711</u>
NET ASSETS		
Reserved for library trust	<u>\$ 249,376</u>	
Total Net Assets	<u>\$ 249,376</u>	

The notes to the financial statements are an integral part of this statement

**TOWN OF LOS GATOS
PRIVATE PURPOSE LIBRARY TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Trust Fund
ADDITIONS	
Interest	\$ 4,740
Other	98,127
Total Additions	102,867
DEDUCTIONS	
Library services	53,219
Total Deductions	53,219
CHANGE IN NET ASSETS	49,648
NET ASSETS, BEGINNING OF YEAR	199,728
NET ASSETS, END OF YEAR	\$ 249,376

See accompanying notes to financial statements

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Notes to Basic Financial Statements

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

The Town of Los Gatos (the "Town") operates under a Council-Manager form of government and provides the following services; public safety (including police, emergency management and fire services), parks and public works, community development, community services, library, sanitation, public improvements, planning and zoning, general administration services, and redevelopment. Redevelopment services are provided primary through the Redevelopment Agency of the Town.

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town's population as of January 1, 2004 was 28,750.

As required by generally accepted accounting principles, these financial statements present the Town as the Primary Government, with its component unit for which the Town is considered financially accountable. The component unit discussed below is included in the Town's reporting entity because of the significance of their operational and financial relationships with the Town.

B. Description of Blended Component Units

The following component unit, although a legally separate entity, is reported as if it was part of the primary government because the Town Council is that component unit's governing body or it provides services entirely to the Town. Under the blended method of inclusion, the component units' balances and transactions are reported in a manner similar to the balances and transactions of the Town itself.

The Town of Los Gatos Redevelopment Agency (the "Agency") was established as a result of the Loma Prieta Earthquake in 1989 and the need to rebuild existing infrastructure. The Redevelopment Agency area encompasses approximately 440 acres in and around Downtown Los Gatos, which includes retail and residential areas, lodging, schools, and main traffic thoroughfares. Projects such as street and utility reconstruction, parking, streetscape and civic improvements were called out in the Plan. The Agency is governed by the Town Council in a separate capacity from the Town as members of the Redevelopment Agency Board.

The financial statements of the Agency's can be obtained from the Town of Los Gatos at 110 East Main St., Los Gatos, California, 95031.

C. Description of Joint Ventures and Public Entity Risk Pool

As described in Note 10, the Town participates in two joint venture and public entity risk pool activities through formally organized separate legal entities. The financial activities of the ABAG PLAN Corporation ("ABAG") and the Local Agency Workers' Compensation Excess Joint Powers Authority ("LAWCX") are not included in the accompanying basic financial statements as boards separate from and independent of the Town administer them.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

D. Basis of Presentation

The Town's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board ("GASB") is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues*, an Amendment of GASB Statement No. 33, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the Town) and its component units. These statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements present *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

E. Major Funds

GASB Statement 34 defines major funds and requires that the Town's major governmental and funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

The Town also reports the following fund types:

Internal Service Funds are used to account for services, which are provided to other departments on a cost-reimbursement basis. Those services include workers compensation, self-insurance, stores, vehicle maintenance, building maintenance, management information, and equipment replacement.

Fiduciary Funds include Private-Purpose Trust Funds and agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of this fund are excluded from the Government-wide financial statement but are presented in a separate Fiduciary Fund financial statement.

F. Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

long-term debt, which is recognized upon becoming due and payable; and except for claims, judgments and compensated absences, which are recognized when estimable and probable. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property and sales taxes, certain intergovernmental revenues, and interest revenue. Fines, forfeitures, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Town gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants, categorical block grants and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs followed by general revenues as necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State of California statutes and the Town's investment policy authorize the Town to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, collateralized, non-negotiable certificates of deposits, commercial paper rated A-1/P-1, medium-term corporate notes rated A or its equivalent or better by Moody's or Standard & Poor's, asset backed corporate notes, bankers' acceptances, mutual funds, and the State Treasurer's investment pool (Local Agency Investment Fund).

The Town does not enter into repurchase or reverse repurchase agreements.

Investments for the Town, as well as for its component units, are reported at fair value. The value is determined based upon market closing prices. The fair value of mutual funds is stated at share value.

Materials, Supplies and Deposits are held for consumption and are stated at cost using the first-in, first-out method. The costs are recorded as expenditures at the time the item is consumed.

Interfund Receivables and Payables - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

“advances to/advances from other funds”. All other outstanding balances between funds are reported as “due to/from other funds”.

Advances between funds and due from/to other funds are offset by a fund balance reserve account in applicable Town funds to indicate the extent to which they are not available for appropriation and are not expendable available financial resources.

Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$5,000.

GASB Statement 34 allows the Town up to four years to record all its infrastructure assets. As of June 30, 2004, the Town has recorded all infrastructure assets as classified below.

As required by GASB Statement 34, the Town depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. The Town depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

Buildings	25-40 years
Improvements	25-40 years
Machinery and equipment	2-20 years
Furniture and fixtures	5-12 years
Infrastructure	20-40 years

Major capital outlay for capital assets and improvements are capitalized as projects are constructed.

Capital assets may be acquired using federal and state grants, contributions from developers, and contributions or grants from other governments. GASB 34 requires that these contributed assets be accounted for as revenue at the time they are contributed.

Deferred Compensation Plan - The Town established a deferred compensation plan created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Deferred compensation plans are not reported as part of the Town’s assets or liabilities, as the deferred compensation plan trustees hold those funds in trust on behalf of employees until the employees are eligible to receive the benefits.

Compensated Absences - Accumulated Vacation, Sick Pay and Other Employee Benefits are accrued as earned. Upon termination, employees are paid for all unused vacation at their current hourly rates.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Sick leave earned is cashed out based on the following schedule for employees with at least 150 hours accrued and up to a maximum amount as specified under labor contract provisions:

For employees under contract 1-59 months	25%
For employees under contract 60-119 months	37.5%
For employees under contract 120 months or more	50%

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund; the long-term portion is recorded in the Statement of Net Assets.

The changes of the compensated absences were as follows:

	Governmental Activities
Beginning Balance	\$ 1,697,168
Additions	1,746,702
Payments	(1,608,178)
Total Ending Balance	<u>\$ 1,835,692</u>
Current Portion of Ending Balance	<u>\$ 77,684</u>

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General fund. Only compensated absences related to terminated employees are reported in the fund financial statements.

Long-Term Liabilities - In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the dates of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting periods. Actual results could differ from those estimates.

Property Tax Levy, Collection and Maximum Rates - State of California Constitution Article XIII

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than 2% per year unless the property is sold, transferred, or substantially improved. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among the counties, cities, school districts and other districts.

The County of Santa Clara assesses properties, bills for and collects property taxes on the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation/lien dates	January 1	January 1
Levy dates	January 1	January 1
Due dates (delinquent as of)	50% on November 1 (December 10) 50% on February 1 (April 10)	March 1 (August 31)

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue and receivables when they are collected during the fiscal year of levy or within 60 days of year-end.

Postemployment Health Care Benefits - Substantially all Town employees and their surviving spouses are eligible for post-employment health care benefits which are funded on a pay-as-you-go basis. During the fiscal year ended June 30, 2004, 59 employees received benefits at a cost to the Town of \$82,834, net employee reimbursements.

Social Security - The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either social security or an alternative plan.

The Town's part-time, seasonal and temporary employees are covered under social security, which required these employees and the Town to contribute 6.2% of the employees pay. Total contributions to Social Security for the year ended June 30, 2004 amounted to \$59,458, of which the Town paid one-half.

Budgets and Budgetary Accounting - The Town follows the procedures below when establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits to the Town Council a proposed operating and capital improvement budget for the fiscal year commencing the following July 1. The budgets include the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through adoption of Town resolution by Council.

TOWN OF LOS GATOS, CALIFORNIA
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4. The Town Manager is authorized to implement the programs as approved in the adopted budget. Within a specific fund, the Town Manager may transfer appropriations between categories, departments, projects and programs as needed to implement the adopted budget, whereas the Town Council must authorize budget increases and decreases, and transfers between funds.
5. Budgets are adopted on a basis consistent with generally accepted accounting principles except for proprietary funds which budget for capital outlays but not depreciation. Budgets were adopted for the General Fund, Special Revenue Funds, Internal Service Funds and Capital Projects Funds.
6. Budgeted amounts are as originally adopted or as amended by Town Council. Individual amendments were not material in relation to original appropriations.

Encumbrances - Under encumbrance accounting, purchase orders, contract and other commitments for expenditures are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities; unexpended and unencumbered appropriations lapse at year end in all funds. Encumbered appropriations are carried forward to the following year.

New Accounting Pronouncements - During the fiscal year ended June 30, 2004, GASB passed statement number 40, *Deposit and Investment Risk Disclosures*, to amend statement No. 3. This statement requires more comprehensive disclosure requirements for deposit and investment risks of local governments and is required to be implemented by June 30, 2005.

Also during the fiscal year ended June 30, 2004, GASB passed statement number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and statement number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements require that governmental entities evaluate their current and past service liabilities for post employment health benefits to determine annual required contributions for the postemployment benefits. Liabilities or assets may result from the difference between the actual payments and the annual required contributions. The past service liability will be allocated prospectively, thus a liability will not be recorded for past service liabilities in the first year. The Town is required to implement these new accounting pronouncements by June 30, 2008.

TOWN OF LOS GATOS, CALIFORNIA
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2. CASH AND INVESTMENTS

The Town pools cash from all sources and all funds except Restricted Cash and Investments so that it can be invested at the maximum yield, consistent with safety and liquidity, while existing funds have cash available for expenditures.

Cash and Investments Defined - The Town includes only cash deposits in banks as cash. Investments in LAIF and government securities mutual funds are net in the order of liquidity, since they may be withdrawn without penalty. U.S. Treasuries, U.S. Agencies and Certificates of Deposit are the Town's least liquid investments, since they must be held to maturity.

Cash Deposits with Banks and Certificates of Deposit - California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Town's name and places the Town ahead of general creditors of the institution. The Town has waived collateral requirements for the portion of deposits covered by Federal Depository Insurance.

The Town's deposits with banks and certificates of deposit are categorized to give an indication of the level of credit risk assumed by the Town at June 30, 2004. Category 1 includes deposits that are insured or collateralized with securities held by the Town or by its agent in the Town's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name. Category 3 includes deposits that are uncollateralized, or that are collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Town's name.

The Carrying amount of the Town's cash deposits was \$3,111,368 as of June 30, 2004. The bank balance was \$3,137,889 as of June 30, 2004 of which \$100,000 was covered by Federal Depository Insurance (category 1) and 3,037,889 was collateralized (category 2) as discussed above. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

Investments - The Town and its fiscal agent invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called "securities instruments," or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the Town employs the Trust department of a bank as the custodian of all its investments, regardless of their form.

The Town voluntarily participates in LAIF, regulated under Section 16429 of the State Government Code. LAIF allows local agencies such as the Town to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The fair value of the Town's position in the pool is the same as the value of its pool shares.

The Town's investments are categorized below to give an indication of the level of credit risk assumed by the Town at June 30, 2004. Category 1 includes investments that are insured or registered or for

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which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Town's name. Category 3, of which there are none, includes uninsured and unregistered investments for which the securities are held by the counter party, or by the counter party's trust department or agent but not in the Town's name. These categories do not apply to certain types of investments, such as investment pools, because of their diversified, rather than individual, nature.

The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2004.

	Available for		
	Operations	Restricted	Total
Category 1:			
U.S. Government Agency securities	\$ 33,240,264	\$ -	\$ 33,240,264
Category 2:			
U.S. Treasury Securities	-	671,939	671,939
Non-categorized investments:			
Government Securities Money Market Mutual Funds	1,440,154	468,833	1,908,987
Local Agency Investment Fund	14,074,948	2,609,970	16,684,918
Total Investments	48,755,366	3,750,742	52,506,108
Cash Deposits with Banks	2,428,593	454,503	2,883,096
Certificates of Deposit	-	228,521	228,521
Cash on hand at Town	2,500	-	2,500
Total Cash and Investments	\$ 51,186,459	\$ 4,433,766	\$ 55,620,225

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted by Town debt or Agency agreements.

	Total City	Fiduciary Funds	Totals
Cash and investments available for operation	\$ 50,863,024	\$ 323,435	\$ 51,186,459
Restricted cash and investments	4,205,245	228,521	4,433,766
Total cash and investments	\$ 55,068,269	\$ 551,956	\$ 55,620,225

Marking Investments to Fair Value - The Town adopted Governmental Accounting Standards Board (GASB) Statement 31, which requires that the Town's investments be carried at fair value instead of cost. Under GASB 31, the Town must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

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JUNE 30, 2004

3. LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2004 :

Description	Interest Rate	Maturity	Balance
General Fund:			
Open Doors Associates, Ltd.	7%	2024	\$ 418,266
Community Development Block Grant Fund(CDBG):			
Housing Conservation Loans	0-5%	Various	603,983
Open Doors Associates, Ltd.	7%	2024	55,129
Total CDBG			659,112
Total Long-Term Notes Receivable			<u>\$ 1,077,378</u>

Open Doors Associates Ltd. And Mid-Penninsula Housing Coalition - The Town has cooperation agreements with these two developers and several other governmental agencies (the "Developers"). Under these agreements, the Developers constructed a 64-unit low and moderate-income housing project. To assist in financing this project, the Town advanced funds to these developers under notes, which are secured by deeds of trust subordinated by construction loans, permanent financing and other loans on the project up to a maximum of \$6.5 million.

Under a note dated April 21, 1992, the Town agreed to loan a maximum amount of \$339,250 to Open Doors Associates, Ltd. to cover the cost of traffic impact fees, planing fees and building permit taxes. As of June 30, 2004, \$418,266 of such costs, including accrued interest, had been incurred by Open Doors Associates, Ltd. in connection with the project and advances by the Town under this note.

Housing Conservation Loans - The Town administers a housing conservation and rehabilitation loan program using Housing and Community Development Act funds (funded through federal grants). Under this program, individuals with income below certain levels are eligible to receive low interest loans, secured by deeds of trust, for construction work on their homes. Upon approval of loans, the Town disburses cash and arranges for and collects repayments. As of June 30, 2004, restricted cash and investments included a balance of \$417,945 available for this program and recorded in the CDBG fund.

4. INTERFUND TRANSACTIONS

Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances due to or due from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

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As of June 30, 2003, inter-fund receivables and payables consisted of the following:

	Advances From Other Funds	Advances to Other Funds
General Fund	\$ -	\$ 1,134,250
Certificates of Participation	984,250	-
Nonmajor Governmental Funds	150,000	-
Total	<u>\$ 1,134,250</u>	<u>\$ 1,134,250</u>

The General Fund has an advance of \$984,250 to the Certificates of Participation Debt Service Fund to finance Agency operations. The advance bears interest at 10% per year and is payable on demand. For the fiscal year ended June 30, 2004, the Certificates of Participation Fund paid \$98,425 in interest to the General Fund.

The General Fund has \$150,000 non-interest bearing advance to the Non-Point Source Maintenance Special Revenue Fund. Expenditures are paid and subsequently reimbursed in this fund and the advance was used to cover cash shortfalls until reimbursements are received. The advance is due when the program is eliminated and is repayable from Non-Point Source Maintenance revenues.

Transfers – With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects.

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Transfers between funds during the fiscal year ended June 30, 2004 were as follows:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>	
<i>General Fund</i>	<i>Special Revenue Funds</i>		
	Solid Waste Management	\$ 24,113	A
	Non-Point Source Maintenance	31,680	A
	Sewer Maintenance	87,060	A
	Public Works	6,418	A
	<i>Capital Projects Fund</i>		
	Capital Outlay	61,366	A
	Capital Outlay	51,685	C
	Gas Tax	106,000	B
	<i>Internal Service Funds</i>		
	Equipment Replacement	400,000	C
	Workers Compensation	125,000	C
	Self Insurance	125,000	C
<i>Capital Projects Fund</i>			
Appropriated Reserves	<i>General Fund</i>	75,000	E
	<i>General Fund</i>	198,770	E
	<i>Special Revenue Funds</i>		
	Gas Tax	620	F
	<i>Special Revenue Funds</i>		
Capital Projects Fund	Community Development Block Grant	50,600	F
<i>Capital Project Fund</i>	<i>Debt Service Funds</i>		
Housing Set-Aside Fund	Certificates of Participation Debt Service Fund	1,008,739	D
		<u>\$ 2,352,050</u>	

The reasons for these transfers are set forth below:

- A To reimburse fund administrative expenditures.
- B Recurring transfers.
- C To reimburse prior year overcharges.
- D State-required set-aside of Low/Moderate Income Housing portion of property tax increment.
- E To allocate balance of advance to fund capital projects.
- F To fund capital project expenditures using grant funds.
- G To fund debt service payments.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

5. CAPITAL ASSETS

Changes in capital assets during the fiscal year consist of:

Governmental activities

	Balance July 1, 2003	Additions	Adjustments & Retirements	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 14,165,194	\$ -	\$ -	\$ 14,165,194
Construction in Progress	8,489	365,489	-	373,978
Total capital assets not being depreciated	14,173,683	365,489	-	14,539,172
Capital assets being depreciated:				
Buildings and Improvements	9,201,999	73,624	(220,534)	9,055,089
Equipment & Vehicle	5,855,305	356,345	(149,690)	6,061,960
Infrastructure - All Other	1,629,991	1,216,844	-	2,846,835
Infrastructure - Streets	33,359,028	4,103,244	-	37,462,272
Total capital assets being depreciated	50,046,323	5,750,057	(370,224)	55,426,156
Less accumulated depreciation for:				
Buildings and Improvements	3,647,761	175,899	-	3,823,660
Equipment & Vehicle	3,351,658	601,318	(166,070)	3,786,906
Infrastructure - All Other	-	54,333	-	54,333
Infrastructure - Streets	10,686,664	1,066,554	-	11,753,218
Total accumulated depreciation	17,686,083	1,898,104	(166,070)	19,418,117
Net capital assets being depreciated	32,360,240	3,851,953	(204,154)	36,008,039
Governmental activity capital assets, net	\$ 46,533,923	\$ 4,217,442	\$ (204,154)	\$ 50,547,211

Depreciation Allocation - Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<i>Governmental Activities</i>	Depreciation Expense
General government	\$ 127,306
Public safety	249,513
Parks and public works	1,299,641
Community development	36,927
Community services	21,489
Library	54,558
Sanitation	6,977
Redevelopment	101,693
Total Governmental Activities	\$ 1,898,104

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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6. LONG-TERM OBLIGATIONS

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town's bonded debt issues and transactions are summarized below in the schedule of changes in long-term debt and discussed in detail thereafter.

	Original Issue Amount	Balance June, 30 2003	Additions	Retirements	Balance June, 30 2004	Due Within One Year
1992 Certificates of Participation, 5-9%, due 8/1/2012	\$ 2,960,000	\$ 1,775,000	\$ -	\$ 160,000	\$ 1,615,000	\$ 170,000
2002 Certificates of Participation, Series A, 2.5-5%, due 8/1/2031	10,725,000	10,725,000	-	210,000	\$ 10,515,000	215,000
Total Long-Term Debt	\$ 13,685,000	\$ 12,500,000	\$ -	\$ 370,000	\$ 12,130,000	\$ 385,000

1992 Certificates of Participation (COPs) - The Town issued Certificates of Participation in the original principal amount of \$2,960,000 dated August 1, 1992 to finance certain construction costs of the Town's Parking Lot 4 Project, which was constructed on land located in the Los Gatos Central Redevelopment Project Area. The COPs are similar to bond debt as they allow investors to participate in a share of guaranteed payments. Because they are similar to debt, the present value of the total of the payments to be made is recorded as long-term debt. Principal payments are due annually on August 1st, which interest payments payable semi-annually on February 1st and August 1st. The Town has pledged motor vehicle license fee revenues as collateral for the repayment of the Certificates.

To assist the Town in paying the cost of acquisition and construction of the Parking Lot 4 Project, the Town and its Redevelopment Agency entered into a Reimbursement Agreement. Under this agreement, the Agency will use available net tax increment revenues resulting from the Project's effect on land values to repay the Town for all lease payments made by the Town to the Agency under the lease agreement for the Project. Net tax increment revenues are all taxes allocated to and paid into the Redevelopment Agency Capital Projects Fund for the Project Area. Reimbursements under this agreement commenced in fiscal 1995-1996.

For the fiscal year ended June 30, 2004, lease income and reimbursements in the amount of \$930,177 (offsetting) was recorded as other financing sources and uses in the Certificates of Participation Fund. These transactions are eliminated from the Government-Wide Statement of Activities.

2002 Certificates of Participation (COPs) - On July 18, 2002, the Town and the Los Gatos Redevelopment Agency issued \$10,725,000 in 2002 Certificates of Participation, Series A, to finance the acquisition, construction, rehabilitation, equipping and improvement of several capital improvement projects. The Town has pledged lease payments of real property and facilities comprised of the Parks and Public Works Service Center and Baseball Field, as well as Parking Lot

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No. 1, 2, and 3, as collateral for the repayment of the Certificates. Principal payments are due annually on August 1st, with interest payments due semi-annually on February 1st and August 1st.

Future debt service requirements as of June 30, 2004, were as follows:

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2005	\$ 385,000	\$ 542,006
2006	400,000	526,758
2007	415,000	511,458
2008	430,000	495,910
2009	445,000	479,137
2010-2014	2,015,000	2,119,874
2015-2019	1,610,000	1,772,143
2020-2024	2,010,000	1,357,607
2025-2029	2,560,000	797,500
2030-2032	1,860,000	142,500
Total	<u>\$ 12,130,000</u>	<u>\$ 8,744,893</u>

The Agency must maintain required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Town fails to meet its obligations under the COPs issue and totaled \$954,898 at June 30, 2004.

The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

7. SPECIAL ASSESSMENT DISTRICT DEBT WITHOUT COMMITMENT

Special assessment districts are established in various parts of the Town to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements. These assessments are payable over the term of the debt issued to finance the improvements and are used to pay debt service on debt issued to fund the improvements.

The Town has no legal liability with respect to the payment of any indebtedness of the Downtown Parking Assessment District. The principal amount of the non-obligated debt outstanding was \$995,000 as of June 30, 2004 and was excluded from the Town's financial statements.

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8. NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets - Net Assets is the excess of all the Town's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Town's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter. These principally include debt service requirements and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted to use.

Reservations of Fund Balances - Fund balance consists of reserved and unreserved amounts. Reserved fund balance represents that portion of fund balance or retained earnings that has been appropriated for expenditure or is legally segregated for a specific future use. As of June 30, 2004, portions of fund balance had been reserved because of the following:

Encumbrances are reserved to encumber fund balance for purchase order commitments made before fiscal year end.

Capital Outlay reserves are funded from storm drain fees, construction taxes and debt proceeds that are legally restricted for major capital projects.

Advances are reserved to reflect long-term loans to other funds that are not available for expenditure.

Long-Term Notes Receivable reserves reflect the balance of long-term loans not offset by deferred revenue and that are not available for expenditure.

Housing reserves reflect the amounts to be expended for low and moderate-income housing or rental rehabilitation.

Repairs and Maintenance reserves reflect legally restricted balances for repairs and maintenance of lighting and landscape property and open space property that are financed with special tax assessments on the benefiting property.

TOWN OF LOS GATOS, CALIFORNIA
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Debt Service reserves reflect the cash balances in the debt service funds that are restricted for debt service payments.

Library Trust reserves will be used for library operations accounted for in the Library Expendable Trust Fund.

Designations of Fund Balances - A portion of unreserved fund balance may be designated to indicate plans for financial resource usage in a future period, such as for general contingencies or capital projects. As of June 30, 2004, portions of unreserved fund balance had been designated for the following purposes and the remaining balance is unreserved.

Civic Center Improvements designations will be used for general improvements to the Civic Center including major upgrades to the electrical system.

Solid Waste Management designations will be used to implement a yard waste collection program.

Open Space designations will be used to make selective open space acquisitions.

Animal Control designations will be used to extend the period that animals are held.

Parking designations will be used to mitigate parking issues within the Town.

Manager's Contingency designations will be used at the discretion of the Town Manager to provide budgets for unforeseen situations that may arise during the fiscal year.

Productivity Enhancement designations will be used to fund requests that result in streamlining or improving existing service levels.

Economic Uncertainty designations will be used to fund future fluctuations in the economy that are not currently foreseen. This designation is calculated at 25% of the 2003-04 operating budget.

Capital Improvement designations will be used for the acquisition and construction of capital facilities.

Designated for Two Year Budget Agreement-set aside by Town Council to provide funding resource to be available to replace property tax lost to State on a "one-time" basis according to the 2004 budget agreement between the State of California and local governments.

Designated for Compensated Absences-designation will be used to provide for sick and vacation leave balances at their accrued level at year end less amounts expected to be paid in the following period from currently available resources.

Debt Service designations will be used to fund the future payments of principal and interest on long-term debt.

TOWN OF LOS GATOS, CALIFORNIA
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Excess of Expenditures over Appropriations – There were no funds with expenditures in excess of budget for the year ended June 30, 2004.

9. EMPLOYEES' RETIREMENT PLAN

Plan Description - The Town of Los Gatos contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy - Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The rates for the fiscal year ended June 30, 2004 was 0% of annual covered payroll for non-safety (miscellaneous) and 16.010% for safety employees. The contribution requirements of plan members and the Town are established and may be amended by PERS.

Annual Pension Cost - For fiscal year ended June 30, 2004, the Town's \$626,290 annual pension cost for PERS was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8.25% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by age, duration of service, and type of employment; (c) 3.5% inflation; (d) 3.75% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 3.50% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value) depending on the size of investment gains and/or losses. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three Year Trend Information PERS

In recent years the Town has experienced actuarial "surplus" excesses in the both the safety and miscellaneous retirement plans. As a result, the required employer contributions were reduced each year for both plans at differing amounts. Town management believed the spike in market valuations of actuarial assets was only temporary and decided to accrue expenses for those years in order to match expenditures more appropriately over time. The Town accrued at a historical

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“normal” employer contribution rate of 7.0 and 11.0 percent of covered payroll for the miscellaneous and safety plans, respectively.

Safety Plan

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 747,367	100	0
6/30/03	1,024,649	100	0
6/30/04	626,290	100	0

Miscellaneous Plan

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 530,197	100	0
6/30/03	611,989	100	0
6/30/04	661,735	100	0

Plan Actuarial Value and Funding Progress

Safety Plan

<u>Actuarial</u>						
<u>Valuation Date</u>	<u>Entry Age Accrued Liability</u>	<u>Value of Assets</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) Liability as % of Payroll</u>
2000	\$ 25,692,203	\$ 26,977,795	\$ (1,285,592)	105.0%	\$ 3,109,170	-41.3%
2001	26,845,081	27,471,189	(626,108)	102.3%	3,339,766	-18.7%
2002	29,477,337	25,858,988	3,618,349	87.7%	3,631,141	99.6%

Miscellaneous Plan

<u>Actuarial</u>						
<u>Valuation Date</u>	<u>Entry Age Accrued Liability</u>	<u>Value of Assets</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) Liability as % of Payroll</u>
2000	\$ 27,321,378	\$ 37,157,178	\$ (9,835,800)	136.0%	\$ 6,053,885	-162.5%
2001	30,841,467	38,562,466	(7,720,999)	125.0%	6,601,729	-117.0%
2002	34,162,824	36,683,535	(2,520,711)	107.4%	8,314,689	-30.3%

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

10. JOINT POWERS AUTHORITY

The Town participates in the following public entity risk pools through formally organized and separate legal entities. The Town does not have an equity interest in the joint ventures. These entities exercise full powers and authorities within the scope of the related agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entities are not those of the Town, although the Town retains an ongoing financial interest or an ongoing financial responsibility.

Association of Bay Area Governments PLAN Corporation (ABAG) is a public entity risk pool that is a not-for-profit organization established in 1986 to provide certain levels of liability insurance coverage, claims and risk management services, and legal defense to San Francisco Bay Area cities (currently 29 participants). ABAG is governed by a Board of Directors comprised of officials appointed by each participating member and is administered by ABAG. The Town paid premiums of \$605,635 to ABAG during 2003-04. Members may receive rebates when declared by ABAG or, in the event excess liability claims against ABAG exceed available resources, may be required to make additional contributions. ABAG is considered a risk-sharing pool whereby all its members share in the cost of losses for other members.

Condensed full accrual basis audited financial information of ABAG as of and for the year ended June 30, 2004, as provided by ABAG, P.O. Box 2050, Oakland, CA 94604, is as follows:

Total assets	\$ 41,602,323
Total liabilities	11,578,210
Net Assets	<u>30,024,113</u>
Total operating revenue	\$ 7,053,182
Total operating expense	1,928,095
Net operating income	<u>5,125,087</u>
General revenue	<u>2,537,588</u>
Change in Net Assets	7,662,675
Beginning Net Assets	22,361,438
Ending Net Assets	<u>\$ 30,024,113</u>

Silicon Valley Animal Control Authority (SVACA) - The Town is a member of SVACA which was established in 2000 to provide animal control services. SVACA has its own field services and has an agreement with the Humane Society of Santa Clara Valley to provide facilities, personnel, shelter and animal services. SVACA is governed by a Board of Directors consisting of representatives from member agencies. During the fiscal year ended June 30, 2004, the Town contributed \$173,553 to SVACA. Audited financial statements are available from SVACA at

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

2340-A Walsh Avenue, Santa Clara, CA 95051. The fiscal year ended June 30, 2004 was the last year the Town participated in SVACA.

11. RISK MANAGEMENT

ABAG PLAN Corporation (ABAG) covers general liability claims in the amount up to \$5,000,000. The Town has a deductible or uninsured liability of up to \$50,000 per claim. ABAG also provides all risk property coverage of \$100,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property damage and a \$10,000 deductible for vehicle damage. Once the Town's deductible is met, ABAG becomes responsible for payment of all claims up to the limit.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX) - The Town is a member of LAW CX for workers compensation claims coverage. The Town has a \$250,000 self-insured retention level or uninsured liability for all employees. Once the Town's deductible is met, LAW CX becomes responsible for claims up to \$1,000,000. For claims greater than \$1,000,000, LAW CX has a commercial policy providing coverage. Financial statements may be obtained from LAW CX at 6371 Auburn Blvd., Suite B, Citrus Heights, California, 94604-2050. Condensed full accrual basis audited financial information of LAW CX as of and for the year ended June 30, 2004, is as follows:

Total assets	\$ 12,729,979
Total liabilities	13,090,935
Net Assets	<u>(360,956)</u>
Total operating revenue	\$ 7,609,221
Total operating expense	7,952,592
Net operating income	<u>(343,371)</u>
General revenue	<u>92,542</u>
Change in Net Assets	(250,829)
Beginning Net Assets	(110,127)
Ending Net Assets	<u>\$ (360,956)</u>

The Town has not significantly reduces its insurance coverage from the prior year and settlements have not exceeded insurance coverage for the past three years.

Liability for Uninsured Claims - The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but is has retained the risk for the deductibles, or uninsured portion of these claims.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

The change in Workers' Compensation and Self Insurance Service Funds' claims liabilities, including claims incurred but not reported as estimated by the Town, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2004:

	Workers' Compensation Internal Service Fund	Self Insurance Internal Service Fund	Total
Beginning claims payable balance	\$ 500,862	\$ 112,252	\$ 613,114
Liability for current fiscal year claims	136,505	249,938	386,443
Inc./(Dec.) in estimated liability for prior claims	326,043	42,735	368,778
Claims paid	(348,895)	(69,331)	(418,226)
Ending claims payable balance	<u>\$ 614,515</u>	<u>\$ 335,594</u>	<u>\$ 950,109</u>

12. COMMITMENTS AND CONTINGENCIES

The Town participates in several federal and state grant programs. These are subject to examination by grantors and the amount, if any, of disallowed expenditures cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

The Town is subject to litigation arising from the normal course of business. The Town Attorney believes there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

13. RESTATEMENT OF BEGINNING NET ASSETS

Beginning net assets was decreased in the statement of activities by \$204,154 to correct an overstatement of buildings and improvements in the capital assets balances.

Required Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
MAJOR GOVERNMENTAL FUND SCHEDULES
(OTHER THAN THE GENERAL FUND)

Schedule of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP):

Appropriated Reserves Fund is used to account for resources provided for capital projects not fully funded from other sources.

Certificates of Participation Fund is used to account for the 1992 and 2002 Certificates of Participation issued to finance the Parking Lot #4 project and several capital improvement projects throughout the Town.

Redevelopment Agency Capital Projects Fund is used to account for redevelopment projects and related property tax revenue.

**TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Other taxes	\$ 69,000	\$ 138,845	\$ 69,845
Intergovernmental	550,331	634,353	84,022
Charges for services	-	7,000	7,000
Other	-	266,778	266,778
Total Revenues	619,331	1,046,976	427,645
EXPENDITURES			
Capital Outlay	3,251,581	3,179,876	71,705
Total Expenditures	3,251,581	3,179,876	71,705
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,632,250)	(2,132,900)	499,350
OTHER FINANCING SOURCES (USES)			
Operating transfers in	161,834	126,220	(35,614)
Operating transfers (out)	-	(113,052)	(113,052)
Total Other Financing Sources (Uses)	161,834	13,168	(148,666)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (2,470,416)</u>	(2,119,732)	<u>\$ 350,684</u>
BEGINNING FUND BALANCE		<u>6,198,441</u>	
ENDING FUND BALANCE		<u>\$ 4,078,709</u>	

**TOWN OF LOS GATOS
CERTIFICATES OF PARTICIPATION FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

REVENUES	Budget	Actual	Variance Positive (Negative)
Property Taxes	\$ 4,315,350	\$ 4,586,872	\$ 271,522
Less: Educational Revenue Augmentation Fund	(350,000)	(209,975)	140,025
Interest	169,500	31,291	(138,209)
Total Revenues	4,134,850	4,408,188	273,338
 EXPENDITURES			
Redevelopment	1,475,604	1,773,889	(298,285)
Debt Service:			
Interest and fees	1,590,181	661,702	928,479
Principal	370,000	370,000	-
Total Expenditures	3,435,785	2,805,591	630,194
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	699,065	1,602,597	903,532
 OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers (out)	(793,070)	(1,008,739)	(215,669)
Total Other Financing Sources (Uses)	(793,070)	(1,008,739)	(215,669)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ (94,005)</u>	593,858	<u>\$ 687,863</u>
BEGINNING FUND BALANCE		<u>3,550,572</u>	
ENDING FUND BALANCE		<u>\$ 4,144,430</u>	

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Interest	\$ 147,885	\$ 93,216	\$ (54,669)
Other	-	274	274
Total Revenues	147,885	93,490	(54,395)
EXPENDITURES			
Capital outlay	2,881,035	2,800,516	80,519
Total Expenditures	2,881,035	2,800,516	80,519
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,733,150)	(2,707,026)	\$ 26,124
BEGINNING FUND BALANCE		6,207,412	
ENDING FUND BALANCE		\$ 3,500,386	

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Supplementary Information

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Solid Waste Management Fund was established to account for the Town's solid waste program activities.

Community Development Block Grant Fund was established to account for grant funds received and expended under the Community Development Act of 1974.

Non-Point Source Maintenance Fund was established to comply with obligations under the National Pollutant Discharge Elimination system permit issued by the California Regional Water Quality Control Board.

Sewer Maintenance Fund was established to account for the collection and disbursement of sanitary sewer fees.

Land and Lighting Fund was established to account for maintenance of trees, landscaping, irrigation systems and lighting within the boundaries of Tract No. 8439.

Capital Projects Funds:

Housing Set-Aside Fund was established to account for the mandatory 20% property tax allocation for low-income housing and related capital projects.

Storm Drain Basin Funds were established to account for fees paid in conjunction with the development in specified drainage areas.

Construction Tax Funds were established to account for tax levies on building additions or alterations including capital improvements, underground utilities and parks.

Gas Tax Fund was established to account for revenue and expenditures under the State of California Streets and Highways Code Sections 2106, 2107 and 2107.5. The revenues must be used for the maintenance and construction of streets.

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2004

	SPECIAL REVENUE FUNDS				
	Solid Waste Fund	Community Development Fund	Non-Point Source Maintenance	Sewer Maintenance	Lighting and Landscaping
ASSETS					
Cash & Investments	\$ 298,407	\$ -	\$ 244,756	\$ 72,446	\$ 80,786
Restricted cash & investments	-	417,945	-	-	-
Receivables:					
Accounts	25,846	54,486	77,697	-	-
Intergovernmental Receivable	-	236,702	-	-	1,132
Long Term Notes Receivable	-	659,112	-	-	-
Total Assets	<u>\$ 324,253</u>	<u>\$ 1,368,245</u>	<u>\$ 322,453</u>	<u>\$ 72,446</u>	<u>\$ 81,918</u>
LIABILITIES					
Accounts Payable	\$ 1,932	\$ 27,444	\$ 178	\$ 62,892	\$ 191
Accrued payroll and benefits	3,212	452	2,255	9,554	-
Deferred revenue	-	325,352	-	-	-
Advance from Other Funds	-	-	150,000	-	-
Total Liabilities	<u>5,144</u>	<u>353,248</u>	<u>152,433</u>	<u>72,446</u>	<u>191</u>
FUND BALANCES					
Reserved for:					
Low & Moderate Housing	-	-	-	-	-
Repair and Maintenance	-	-	-	-	81,727
Long Term Notes Receivable	-	659,112	-	-	-
Capital Projects	-	-	-	-	-
Unreserved, designated for:					
Solid waste management	319,109	-	-	-	-
Unreserved, Undesignated	-	355,885	170,020	-	-
Total Fund Balances	<u>319,109</u>	<u>1,014,997</u>	<u>170,020</u>	<u>-</u>	<u>81,727</u>
Total Liabilities and Fund Balances	<u>\$ 324,253</u>	<u>\$ 1,368,245</u>	<u>\$ 322,453</u>	<u>\$ 72,446</u>	<u>\$ 81,918</u>

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2004

	CAPITAL PROJECTS FUNDS						
	Housing Set-Aside	Storm Drains Basin 1	Storm Drains Basin 2	Storm Drains Basin 3	Construction Tax	Gas Tax	Total
ASSETS							
Cash & Investments	\$3,091,078	\$324,241	\$289,311	\$166,815	\$ 1,873,600	\$500,068	\$6,941,508
Restricted cash & investments	-	-	-	-	-	-	417,945
Receivables:							
Accounts	388,801	-	-	-	-	-	546,830
Intergovernmental Receivable	8,505	-	-	-	-	-	246,339
Long Term Notes Receivable	-	-	-	-	-	-	659,112
Total Assets	\$3,488,384	\$324,241	\$289,311	\$166,815	\$ 1,873,600	\$500,068	\$8,811,734
LIABILITIES							
Accounts Payable	\$ 5,094	\$ -	\$ -	\$ 56	\$ 30	\$ 1,829	\$ 99,646
Accrued payroll and benefits	390	-	-	-	-	-	15,863
Deferred revenue	126,801	-	-	-	-	-	452,153
Advance from Other Funds	-	-	-	-	-	-	150,000
Total Liabilities	132,285			56	30	1,829	717,662
FUND BALANCES							
Reserved for:							
Low & Moderate Housing	3,356,099	-	-	-	-	-	3,356,099
Repair and Maintenance	-	-	-	-	-	-	81,727
Long Term Notes Receivable	-	-	-	-	-	-	659,112
Capital Projects	-	324,241	289,311	166,759	1,873,570	498,239	3,152,120
Unreserved, designated for:							
Solid waste management	-	-	-	-	-	-	319,109
Unreserved, Undesignated	-	-	-	-	-	-	525,905
Total Fund Balances	3,356,099	324,241	289,311	166,759	1,873,570	498,239	8,094,072
Total Liabilities and Fund Balances	\$3,488,384	\$324,241	\$289,311	\$166,815	\$ 1,873,600	\$500,068	\$8,811,734

(Concluded)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004**

	SPECIAL REVENUE FUNDS				
	Solid Waste Fund	Community Development Fund	Non-Point Source Maintenance	Sewer Maintenance	Lighting and Landscaping
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ 37,200
Other Taxes	-	-	-	-	-
Intergovernmental	51,276	124,805	156,723	590,316	-
Charges for Services	99,705	-	13,232	-	-
Interest	-	109,369	-	-	2,180
Total Revenues	150,981	234,174	169,955	590,316	39,380
EXPENDITURES					
Current:					
Parks and Public Works	-	-	-	-	43,503
Community Services	-	336,352	-	-	-
Sanitation and Other	160,405	-	183,148	503,256	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Interest & Fees	-	7,019	-	-	-
Total Expenditures	160,405	343,371	183,148	503,256	43,503
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(9,424)	(109,197)	(13,193)	87,060	(4,123)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers (out)	(24,113)	(50,600)	(31,680)	(87,060)	(6,418)
Total Other Financing Sources (Uses)	(24,113)	(50,600)	(31,680)	(87,060)	(6,418)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(33,537)	(159,797)	(44,873)	-	(10,541)
Fund Balances at beginning of year	352,646	1,174,794	214,893	-	92,268
Fund Balances at end of year	\$ 319,109	\$ 1,014,997	\$ 170,020	\$ -	\$ 81,727

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2004

	CAPITAL PROJECTS FUNDS						Total
	Housing Set-Aside	Storm Drains Basin 1	Storm Drains Basin 2	Storm Drains Basin 3	Construction Tax	Gas Tax	
REVENUES							
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,200
Other Taxes	-	42,275	42,377	21,790	62,996	-	169,438
Intergovernmental	-	-	-	-	-	556,109	1,479,229
Charges for Services	-	-	-	-	-	-	112,937
Interest	(62,657)	8,320	6,090	3,430	40,890	11,780	119,402
Total Revenues	(62,657)	50,595	48,467	25,220	103,886	567,889	1,918,206
EXPENDITURES							
Current:							
Parks and Public Works	-	-	-	-	-	-	43,503
Community Services	-	-	-	-	-	-	336,352
Sanitation and Other	-	-	-	-	-	-	846,809
Capital Outlay	241,916	106,725	-	-	-	531,024	879,665
Debt Service:							
Interest & Fees	-	-	-	-	-	-	7,019
Total Expenditures	241,916	106,725	-	-	-	531,024	2,113,348
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(304,573)	(56,130)	48,467	25,220	103,886	36,865	(195,142)
OTHER FINANCING SOURCES (USES)							
Transfers in	1,008,739	-	-	-	-	-	1,008,739
Transfers (out)	-	-	-	-	-	(106,620)	(306,491)
Total Other Financing Sources (Uses)	1,008,739	-	-	-	-	(106,620)	702,248
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	704,166	(56,130)	48,467	25,220	103,886	(69,755)	507,106
Fund Balances at beginning of year	2,651,933	380,371	240,844	141,539	1,769,684	567,994	7,586,966
Fund Balances at end of year	\$ 3,356,099	\$324,241	\$289,311	\$166,759	\$ 1,873,570	\$ 498,239	\$ 8,094,072

(Concluded)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004**

	SOLID WASTE MANAGEMENT			COMMUNITY DEVELOPMENT BLOCK GRANT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	47,155	51,276	4,121	295,750	124,805	(170,945)
Charges for services	100,000	99,705	(295)	15,000	109,369	94,369
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	147,155	150,981	3,826	310,750	234,174	(76,576)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	466,966	336,352	130,614
Sanitation and other	188,138	160,405	27,733	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	15,000	7,019	7,981
Total Expenditures	188,138	160,405	27,733	481,966	343,371	138,595
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(40,983)	(9,424)	31,559	(171,216)	(109,197)	62,019
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	21,050	-	(21,050)
Transfers (out)	(23,500)	(24,113)	(613)	(86,834)	(50,600)	36,234
Total Other Financing Sources (Uses)	(23,500)	(24,113)	(613)	(65,784)	(50,600)	15,184
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (64,483)</u>	<u>(33,537)</u>	<u>\$ 30,946</u>	<u>\$ (237,000)</u>	<u>(159,797)</u>	<u>\$ 77,203</u>
BEGINNING FUND BALANCES		352,646			1,174,794	
ENDING FUND BALANCES		<u>\$ 319,109</u>			<u>\$ 1,014,997</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004

	NON-POINT SOURCE MAINTENANCE			SEWER MAINTENANCE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	156,760	156,723	(37)	-	-	-
Charges for services	8,700	13,232	4,532	646,690	590,316	(56,374)
Interest	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	165,460	169,955	4,495	646,690	590,316	(56,374)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	216,840	183,148	33,692	551,290	503,256	48,034
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	216,840	183,148	33,692	551,290	503,256	48,034
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(51,380)	(13,193)	38,187	95,400	87,060	(8,340)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	(37,500)	(31,680)	5,820	(95,400)	(87,060)	8,340
Total Other Financing Sources (Uses)	(37,500)	(31,680)	5,820	(95,400)	(87,060)	8,340
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (88,880)</u>	<u>(44,873)</u>	<u>\$ 44,007</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
BEGINNING FUND BALANCES		214,893			-	
ENDING FUND BALANCES		<u>\$ 170,020</u>			<u>\$ -</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004

	LIGHTING AND LANDSCAPING			HOUSING SET-ASIDE		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ 37,110	\$ 37,200	\$ 90	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	2,830	2,180	(650)	65,000	(62,657)	(127,657)
Other	-	-	-	-	-	-
Total Revenues	39,940	39,380	(560)	65,000	(62,657)	(127,657)
EXPENDITURES						
Parks and public works	46,111	43,503	2,608	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	-	-	-	287,320	241,916	45,404
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	46,111	43,503	2,608	287,320	241,916	45,404
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,171)	(4,123)	2,048	(222,320)	(304,573)	(82,253)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	793,070	1,008,739	215,669
Transfers (out)	(6,420)	(6,418)	2	-	-	-
Total Other Financing Sources (Uses)	(6,420)	(6,418)	2	793,070	1,008,739	215,669
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (12,591)</u>	<u>(10,541)</u>	<u>\$ 2,050</u>	<u>\$ 570,750</u>	<u>704,166</u>	<u>\$ 133,416</u>
BEGINNING FUND BALANCES		92,268			2,651,933	
ENDING FUND BALANCES		<u>\$ 81,727</u>			<u>\$ 3,356,099</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004**

	STORM DRAINS BASIN 1			STORM DRAINS BASIN 2		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	64,000	42,275	(21,725)	50,000	42,377	(7,623)
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	10,700	8,320	(2,380)	7,100	6,090	(1,010)
Other	-	-	-	-	-	-
Total Revenues	74,700	50,595	(24,105)	57,100	48,467	(8,633)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	106,726	106,725	1	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	106,726	106,725	1	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,026)	(56,130)	(24,104)	57,100	48,467	(8,633)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (32,026)</u>	<u>(56,130)</u>	<u>\$ (24,104)</u>	<u>\$ 57,100</u>	<u>48,467</u>	<u>\$ (8,633)</u>
BEGINNING FUND BALANCES		380,371			240,844	
ENDING FUND BALANCES		<u>\$ 324,241</u>			<u>\$ 289,311</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004**

	STORM DRAINS BASIN 3			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	5,000	21,790	16,790	50,000	62,996	12,996
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Interest	5,000	3,430	(1,570)	54,900	40,890	(14,010)
Other	-	-	-	-	-	-
Total Revenues	10,000	25,220	15,220	104,900	103,886	(1,014)
EXPENDITURES						
Parks and public works	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	-	-	-
Total Expenditures	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,000	25,220	15,220	104,900	103,886	(1,014)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 10,000</u>	<u>25,220</u>	<u>\$ 15,220</u>	<u>\$ 104,900</u>	<u>103,886</u>	<u>\$ (1,014)</u>
BEGINNING FUND BALANCES		<u>141,539</u>			<u>1,769,684</u>	
ENDING FUND BALANCES		<u>\$ 166,759</u>			<u>\$ 1,873,570</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE YEAR ENDED JUNE 30, 2004**

	GAS TAX			TOTALS		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 37,110	\$ 37,200	\$ 90
Other taxes	-	-	-	169,000	169,438	438
Intergovernmental	511,000	556,109	45,109	1,010,665	888,913	(121,752)
Charges for services	-	-	-	770,390	812,622	42,232
Interest	36,310	11,780	(24,530)	181,840	10,033	(171,807)
Other	-	-	-	-	-	-
Total Revenues	547,310	567,889	20,579	2,169,005	1,918,206	(250,799)
EXPENDITURES						
Parks and public works	-	-	-	46,111	43,503	2,608
Community services	-	-	-	466,966	336,352	130,614
Sanitation and other	-	-	-	956,268	846,809	109,459
Capital Outlay	531,024	531,024	-	925,070	879,665	45,405
Debt Service:	-	-	-	-	-	-
Interest and fees	-	-	-	15,000	7,019	7,981
Total Expenditures	531,024	531,024	-	2,409,415	2,113,348	296,067
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,286	36,865	20,579	(240,410)	(195,142)	45,268
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	814,120	1,008,739	194,619
Transfers (out)	(106,000)	(106,620)	(620)	(355,654)	(306,491)	49,163
Total Other Financing Sources (Uses)	(106,000)	(106,620)	(620)	458,466	702,248	243,782
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ (89,714)</u>	<u>(69,755)</u>	<u>\$ 19,959</u>	<u>\$ 218,056</u>	<u>507,106</u>	<u>\$ 289,050</u>
BEGINNING FUND BALANCES		<u>567,994</u>			<u>7,586,966</u>	
ENDING FUND BALANCES		<u>\$ 498,239</u>			<u>\$ 8,094,072</u>	

(Concluded)

TOWN OF LOS GATOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they are used for internal activities only. In the Government-Wide Statement of Activities, the net revenues and expenses of the internal service funds are allocated to the Town departments or programs that generated them, thus eliminating internal service funds.

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Replacement Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self Insurance Fund was established to account for future general liability claims against the Town.

Stores Fund was established to account for the purchase of photocopy equipment, postage and bulk meter expenses.

Management Information Fund was established to account for the replacement of management information computer systems and components.

Vehicle Maintenance Fund was established to account for preventative maintenance and repair provided for all Town vehicles and equipment.

Building Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
Cash & Investments	\$ 3,268,728	\$2,298,287	\$2,171,121	\$ 186,907	\$ 2,241,771	\$ 166,006	\$ 789,425	\$11,122,245
Restricted cash & investments	-	36,558	-	-	-	-	-	36,558
Receivables:								
Accounts	-	-	12,493	29,126	-	-	5,718	47,337
Interest	-	-	-	-	-	-	-	-
Intergovernmental Receivable	-	-	-	-	-	-	-	-
Interfund Receivable	-	-	-	-	-	-	-	-
Supplies and Prepaids	-	-	-	7,026	-	16,739	-	23,765
Equipment (Net)	-	-	-	-	-	-	50,669	50,669
Total Assets	\$ 3,268,728	\$2,334,845	\$2,183,614	\$ 223,059	\$ 2,241,771	\$ 182,745	\$ 845,812	\$11,280,574
LIABILITIES								
Accounts Payable	\$ -	\$ -	\$ 23,762	\$ 4,805	\$ 7,554	\$ 10,955	\$ 84,890	\$ 131,966
Accrued payroll and benefits	-	1,240	2,225	-	8,635	5,978	2,494	20,572
Claims Payable	-	614,515	335,594	-	-	-	-	950,109
Deferred revenue	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	7,617	7,617
Advance from Other Funds	-	-	-	-	-	-	-	-
Total Liabilities	\$ -	\$ 615,755	\$ 361,581	\$ 4,805	\$ 16,189	\$ 16,933	\$ 95,001	\$ 1,110,264
NET ASSETS								
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,669	\$ 50,669
Unrestricted	3,268,728	1,719,090	1,822,033	218,254	2,225,582	165,812	700,142	10,119,641
Total Net Assets	\$ 3,268,728	\$1,719,090	\$1,822,033	\$ 218,254	\$ 2,225,582	\$ 165,812	\$ 750,811	\$10,170,310

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
OPERATING REVENUES								
Charges for services	\$ 478,900	\$ 498,290	\$ 605,635	\$ 117,466	\$ 785,499	\$ 515,090	\$ 1,088,650	\$ 4,089,530
Refunds	-	-	30,427	-	-	-	-	30,427
Interest	-	18	-	-	-	-	-	18
Other	5,852	-	-	-	47,382	-	7,562	60,796
Total Operating Revenues	484,752	498,308	636,062	117,466	832,881	515,090	1,096,212	4,180,771
OPERATING EXPENSES								
Salaries and benefits	-	38,564	94,530	-	306,896	210,816	61,264	712,070
Insurance expenses	-	611,534	689,398	-	-	-	-	1,300,932
Depreciation expenses	-	-	-	22,401	-	-	3,970	26,371
Services and supplies	20,794	1,663	35,806	71,564	196,203	206,055	773,130	1,305,215
Total Operating Expenses	20,794	651,761	819,734	93,965	503,099	416,871	838,364	3,344,588
Operating Income (loss)	463,958	(153,453)	(183,672)	23,501	329,782	98,219	257,848	836,183
Transfers (out)	(400,000)	(125,000)	(125,000)	-	-	-	-	(650,000)
Change in Net Assets	63,958	(278,453)	(308,672)	23,501	329,782	98,219	257,848	186,183
BEGINNING NET ASSETS	3,204,770	1,997,543	2,130,705	194,753	1,895,800	67,593	492,963	9,984,127
ENDING NET ASSETS	\$ 3,268,728	\$1,719,090	\$ 1,822,033	\$ 218,254	\$ 2,225,582	\$ 165,812	\$ 750,811	\$10,170,310

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

	Equipment Replacement	Worker's Comp	Self Insurance	Stores	Management Information	Vehicle Maintenance	Building Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$ 484,750	\$ 498,308	\$ 626,996	\$ 88,340	\$ 832,881	\$ 515,090	\$ 1,090,494	\$ 4,136,859
Payments to suppliers	(41,411)	-	(12,897)	(70,211)	(206,308)	(229,469)	(761,854)	(1,322,150)
Payments to employees	-	(38,564)	(94,530)	-	(304,691)	(209,561)	(60,070)	(707,416)
Claims paid	-	(499,135)	(466,055)	-	-	-	-	(965,190)
Cash Flows From Operating Activities	443,339	(39,391)	53,514	18,129	321,882	76,060	268,570	1,142,103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers (out)	(400,000)	(125,000)	(125,000)	-	-	-	-	(650,000)
Cash Flows from Noncapital Financing Activities	(400,000)	(125,000)	(125,000)	-	-	-	-	(650,000)
Net Cash Flows	43,339	(164,391)	(71,486)	18,129	321,882	76,060	268,570	492,103
Cash and investments at beginning of period	3,225,388	2,499,236	2,242,608	168,778	1,919,889	89,945	520,856	10,666,700
Cash and investments at end of period	\$ 3,268,727	\$ 2,334,845	\$ 2,171,122	\$ 186,907	\$ 2,241,771	\$ 166,005	\$ 789,426	\$ 11,158,803
Reconciliation of Operating Income to Cash Flows from Operating Activities:								
Operating Income	463,956	(153,453)	(183,672)	23,501	329,782	98,219	257,848	836,181
Adjustments to reconcile operating income to cash flows from operating activities:								
Depreciation	-	-	-	22,401	-	-	3,970	26,371
Change in assets and liabilities:								
Receivables, net	-	-	(9,066)	(29,126)	-	(8,535)	(5,718)	(52,445)
Accounts payable and other accrued expenses	(20,617)	409	22,909	1,353	(10,105)	(14,879)	10,107	(10,823)
Other accrued expenses	-	113,653	223,343	-	2,205	1,255	2,363	342,819
Cash Flows From Operating Activities	\$ 443,339	\$ (39,391)	\$ 53,514	\$ 18,129	\$ 321,882	\$ 76,060	\$ 268,570	\$ 1,142,103

Statistical Section

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Other Independent Auditor's Reports



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ROBERT E. BARSANTI, C.P.A. (RETIRED) PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the Town Council
Town of Los Gatos

We have audited the financial statements of Town of Los Gatos (the "Town") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

November 11, 2004
Redwood City, California